

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to whether or not you should take action you should consult a financial adviser, stockbroker, bank manager, accountant, solicitor or other independent professional adviser immediately.

If you have sold or transferred all of your Ordinary Shares in Equest Balkan Properties plc (the "**Company**"), please forward this document, together with the accompanying Form of Proxy, to the purchaser or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.



(incorporated and registered in the Isle of Man with registered number 114723C)

**Explanatory circular to seek shareholder approval
for the proposed new investment strategy of the Company**

and

Notice of an Extraordinary General Meeting

This document should be read as a whole and in conjunction with the accompanying Form of Proxy. Your attention is drawn to the letter of recommendation from the Chairman of the Company which is set out on page 4 of this document, explaining why the Directors are recommending that Shareholders vote in favour of the Resolution to be proposed at the Extraordinary General Meeting.

Notice of an Extraordinary General Meeting of the Company to be held at IOMA, IOMA House, Hope Street, Douglas, Isle of Man IM1 1AP on 23 July 2008 at 3:30 p.m. (or as soon thereafter as the Company's 2008 Annual General Meeting is concluded or adjourned) is set out at the end of this document. Holders of Ordinary Shares in the Company will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. To be valid, a Form of Proxy, completed and executed in accordance with the instructions printed thereon, should be returned to the Company's registrars, IOMA Fund and Investment Management Limited, IOMA House, Hope Street, Douglas, Isle of Man, IM1 1AP, not later than 48 hours before the time appointed for the Extraordinary General Meeting or any adjournment thereof.

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EXPECTED TIMETABLE OF EVENTS

| | |
|--|------------------------------------|
| Latest time and date for receipt of Forms of Proxy for the EGM | 3:30 p.m. UK time on 21 July 2008 |
| EGM | 3:30 p.m. UK time* on 23 July 2008 |

** or as soon thereafter as the Company's 2008 Annual General Meeting is concluded or adjourned*

DEFINITIONS

| | |
|---|---|
| "Admission" | admission of the Ordinary Shares to trading on AIM |
| "AIM" | AIM, a market operated by the London Stock Exchange plc |
| "Articles" | the articles of association of the Company as at the date of this document |
| "Board" | the Board of directors of the Company |
| "Directors" | the directors of the Company |
| "EGM" or "Extraordinary General Meeting" | an extraordinary general meeting of Shareholders of the Company to be held in accordance with the laws of the Isle of Man and the Articles at 3:30 p.m. UK time (or as soon thereafter as the Company's 2008 Annual General Meeting is concluded or adjourned) on 23 July 2008, notice of which is set out on page 7 of this document |
| "euro" or "€" | the currency defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 |
| "Form of Proxy" | the accompanying form of proxy for use by Shareholders in relation to the EGM |
| "Group" | the Company and its current and future subsidiaries |
| "Investment Adviser" | Equest Partners Limited, a company incorporated in England and Wales and investment adviser to the Company |
| "Investment Manager" | Equest Property Management Limited, a company initially incorporated in the Isle of Man and subsequently re-domiciled in Jersey and investment manager of the Company |
| "London Stock Exchange" | London Stock Exchange plc |
| "Net Asset Value" or "NAV" | net asset value of the Company as determined from time to time by the Company's administrator or other valuer instructed |

| | |
|------------------------------|---|
| | for that purpose |
| "Nominated Adviser" | KBC Peel Hunt Ltd |
| "Notice" | the notice of EGM set out on page 7 of this document |
| "Ordinary Shares" | ordinary shares of €0.01 each in the capital of the Company |
| "Ordinary Resolution" | a resolution passed by Shareholders representing a simple majority of the total voting rights of the Shareholders who (being entitled to do so) vote in person or by proxy on the resolution and do not abstain |
| "Resolution" | the resolution set out in the Notice |
| "Shareholders" | holders of the Ordinary Shares |
| "Target Region" | Bulgaria, Romania, Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Serbia, Montenegro and Turkey |

LETTER FROM THE CHAIRMAN



(incorporated and registered in the Isle of Man with registered number 114723C)

Directors:

Lord St John of Bletso *(Non-executive Chairman)*
Solomon Passy *(Non-executive Director)*
Ionut Costea *(Non-executive Director)*
Robin James *(Non-executive Director)*
Donald Lake *(Non-executive Director)*
Charles Jillings *(Non-executive Director)*
Andrzej Sobczak *(Non-executive Director)*

Registered Office:

IOMA House
Hope Street
Douglas
Isle of Man
IM1 1AP

26 June 2008

Dear Shareholder,

Introduction

On 1 May 2008, the Board announced that it was evaluating a number of strategic options to achieve the objectives of improving the Company's business plan and asset performance and to narrow the discount of share price against NAV.

This review encompassed, among others:

- the Company's current business model and its ability to deliver long term value;
- the risk and reward currently available in the Balkans region;
- the cost structure of the Company including operating as an Isle of Man company; and
- the Board's confidence that the business plan can be delivered.

The Board, together with the Investment Manager, have concluded the strategic review of the Company's operations and I am now writing to you to outline the proposed investment strategy and to give notice of an EGM at which Shareholders will be asked to approve a new investment strategy for the Company.

Current investment strategy

To date, the Company's investment strategy has been to invest in a range of commercial, retail and industrial property opportunities in the Target Region with a primary focus on income producing assets in or around major cities and where it was believed that such investments had the potential for capital appreciation. The Company has also been able to invest opportunistically in late-stage development projects with a capital constraint where it has expected high rental yields and also, more selectively, in land acquisitions.

In 2007, the Company's investment strategy was updated to broaden the Company's investment focus selectively to include the broader Balkan region as per the Company's investment mandate and to undertake more development projects, including later stage development projects in specialist sectors where investment stock was considered to be limited.

Reasons for the proposed change of strategy

The proposed change of strategy is intended to enable the Company to:

- focus on the Company's key strengths and opportunities, namely development;
- release capital to continue to invest in selected existing developments;
- reduce the share price discount against NAV; and
- return capital to Shareholders.

The proposed investment strategy

At the EGM, Shareholders will be asked to approve the investment strategy as set out below:

"The Company intends to (i) dispose of the majority of its investment and development properties realising the value in such investments, (ii) focus on a reduced number of development commercial, retail and industrial property opportunities within the Target Region.

The Company may make investments in single properties which represent (by gross value) more than 25% of the Company's total gross assets. The Board proposes to implement its own risk management procedures as are deemed suitable for companies similar in nature and size to the Company."

If the proposed investment strategy as set out above is approved it is anticipated that, over the next twelve months, the Company will be focused on development properties within Romania and Serbia and continue to invest in Bulgaria through its joint venture Glorient Investment BV.

The disposal process announced on 1 May 2008 is underway and the initial expectations are that the investment realisations as a whole will be above the reported values as at 31 December 2007.

Associated changes (not requiring Shareholders' approval)

Recognising the sharp focus on the realisation of properties and return of capital, it is proposed that the Board be restructured. Charles Jillings has agreed to be appointed as Chairman. Donald Lake will become deputy Chairman and will focus on the property management of the business.

Robin James will remain as a Director and also continue to chair the Company's audit committee. Andrzej Sobczak and Ionut Costea will also continue as Directors.

Lord St John of Bletso has determined not to offer himself for reappointment at the forthcoming 2008 Annual General Meeting of the Company at which he is to retire by rotation (and hence resolution 6 in the notice of Annual General Meeting will not be put to the vote of Shareholders) and Solomon Passy intends to stand down from the Board at the 2008 Annual General Meeting. Both Directors have agreed to join an advisory board of the Company and their deep understanding of the Balkans will assist the Board's deliberations going forward.

The proposed changes to the Board are not conditional on Shareholders' approval of the proposed change in investment strategy.

The Investment Manager and Investment Adviser will continue to manage the Company's portfolio. Once repositioned and, after the return of capital to Shareholders referred to above, the Board will review the appropriate management structure and management fee going forward.

The Board will also review the optimum strategy for returning capital including buying back shares in the market, declaring a special dividend or otherwise.

In addition, as the Board is concerned about the high costs embedded in the Company, it will seek to review these on a proactive basis.

Extraordinary General Meeting

The proposed change of strategy requires the prior approval of Shareholders. Set out on page 7 of this document is a notice convening an extraordinary general meeting to be held at the offices of IOMA, IOMA House, Hope Street, Douglas, Isle of Man IM1 1AP at 3:30 p.m. UK time on 23 July 2008 (which is expected to follow the conclusion of the Company's 2008 annual general meeting to be held at the same location at 3.00 p.m. UK time on 23 July 2008) at which the following resolution will be proposed as an

Ordinary Resolution:

"THAT the Company's investment strategy as set out in the Company's circular to shareholders dated 26 June 2008 be and is hereby approved."

Action to be taken

You will find enclosed a Form of Proxy for use at the EGM. **Whether or not you are intending to be present at the meeting, you are requested to complete the Form of Proxy, which should be returned to the Company's registrars, IOMA Fund and Investment Management Limited, IOMA House, Hope Street, Douglas, Isle of Man, IM1 1AP as soon as possible and in any event so as to be received not later than 3:30 p.m. UK time on 21 July 2008 or not later than 48 hours before the time appointed for any adjournment of the EGM.** Completion and return of the Form of Proxy will not prevent you from attending and voting at the EGM if you so wish.

Recommendation

The Directors believe that approving the investment strategy set out above is in the best interests of the Company and its shareholders. Accordingly, the Directors unanimously recommend that you vote in favour of the Resolution.

Yours faithfully

Lord St John of Bletso

Chairman

NOTICE OF EXTRAORDINARY GENERAL MEETING

OF

EQUEST BALKAN PROPERTIES PLC

NOTICE IS HEREBY GIVEN THAT AN EXTRAORDINARY GENERAL MEETING OF EQUEST BALKAN PROPERTIES PLC will be held at the offices of IOMA, IOMA House, Hope Street, Douglas, Isle of Man IM1 1AP at 3:30 p.m. UK time (or as soon thereafter as the Company's 2008 Annual General Meeting is concluded or adjourned) on 23 July 2008 to consider, and if thought advisable, to pass the following resolution as an Ordinary Resolution:

Ordinary Resolution

THAT the Company's investment strategy as set out in the Company's circular to shareholders dated 26 June 2008 be and is hereby approved.

BY ORDER OF THE BOARD

Dated: 26 June 2008

Registered Office:

IOMA House
Hope Street
Douglas
Isle of Man
IM1 1AP

Notes:

- (i) A member entitled to attend and vote may appoint a proxy or proxies who need not be a member of the Company to attend and vote instead of him or her.
- (ii) In order that a form of proxy shall be valid, it must be deposited (together with any power of attorney or other authority under which it is signed or a notorially certified copy of such power or a copy certified in some other manner approved by the directors), at the Company's registrars, IOMA Fund and Investment Management Limited, IOMA House, Hope Street, Douglas, Isle of Man, IM1 1AP, not later than 48 hours before the time appointed for the meeting or any adjournment thereof.
- (iii) The completion and return of a form of proxy will not, however, preclude shareholders from attending and voting in person at the meeting or at any adjournment thereof, should they wish to do so.
- (iv) If two or more persons are jointly entitled to a share conferring the right to vote, any one of them may vote at the meeting either in person or by proxy, but if more than one joint holder is present at the meeting either in person or by proxy, the one whose name stands first in the register of members in respect of the joint holding shall alone be entitled to vote in respect thereof. In any event, the names of all joint holders should be stated on the form of proxy.
- (v) A vote given by a proxy or authorised representative of a company is valid notwithstanding termination of his authority unless notice of the termination is received at the Company's registrars address as set out in paragraph (ii) above (or at such other place at which the instrument of proxy was duly received) at least one hour before the time fixed for holding the meeting or adjourned meeting at which the vote is given.