

ADVANCE TERRAFUND REIT

INTERIM FINANCIAL STATEMENT

30 June 2008

ADVANCE TERRAFUND REIT

BALANCE SHEET

as at 30 June 2008

All the amounts are in thousand Bulgarian levs (BGN thousand) unless explicitly stated otherwise.

	Note	As at 30 June 2008	As at 30 June 2007
ASSETS			
Investment properties	4	96,656	51,751
Rent and other receivables	5	3,164	2,650
Cash and cash equivalents	6	2,531	5,095
TOTAL ASSETS		<u>102,351</u>	<u>59,496</u>
LIABILITIES			
Bank loans payable	7	16,331	-
Current liabilities	8	3,980	314
TOTAL LIABILITIES		<u>20,311</u>	<u>314</u>
NET ASSETS		<u>82,040</u>	<u>59,182</u>
CAPITAL			
Fixed capital		44,056	44,056
Premiums from issue		7,701	7,701
Retained profit		30,822	7,778
Current period loss		(539)	(353)
TOTAL CAPITAL		<u>82,040</u>	<u>59,182</u>

The financial statement was approved by the Board of Directors and was signed on behalf of Advance Terrafund REIT by:

Radoslav Manolov
Executive Director

Yoana Georgieva
Drafting Accountant

22 July 2008

The notes attached hereto are an integral part of the financial statement.

ADVANCE TERRAFUND REIT

INCOME STATEMENT

for the period ending on 30 June 2008

All the amounts are in thousand Bulgarian levs (BGN thousand) unless explicitly stated otherwise.

	<u>Note</u>	<u>Period ending on 30 June 2008</u>	<u>Period ending on 30 June 2007</u>
Interest revenues		18	275
Revenues from divesting of investment properties		-	3
Revenues from renting out investment properties	4	<u>1,241</u>	<u>437</u>
OPERATING REVENUES		<u>1,259</u>	<u>715</u>
External services expenses	9	1,166	1,020
Personnel expenses		57	18
Financial expenses	10	575	28
Balance sheet value of the properties sold		-	2
OPERATING EXPENSES		<u>1,798</u>	<u>1,068</u>
CURRENT PERIOD LOSS		<u>(539)</u>	<u>(353)</u>

The financial statement was approved by the Board of Directors and was signed on behalf of Advance Terrafund REIT by:

Radoslav Manolov
Executive Director

Yoana Georgieva
Drafting Accountant

22 July 2008

The notes attached hereto are an integral part of the financial statement.

	<u>Period ending on 30 June 2008</u>	<u>Period ending on 30 June 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments associated with trading counterparties	(442)	(528)
Receipts from rent and sales	1,960	101
Payments associated with salaries and remunerations	(51)	(21)
Interest received	18	235
Other cash flows from operating activities	(917)	(940)
Acquisition of investment properties	<u>(6,441)</u>	<u>(17,198)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	<u>(5,873)</u>	<u>(18,351)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuing own shares	-	21,245
Receipts from loans	16,330	-
Repayment of loans	(8,000)	(5,000)
Interest, fees and commissions paid in connection with loans	(440)	(29)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	<u>7,890</u>	<u>16,216</u>
NET INCREASE/(DECREASE) OF THE CASH AND CASH EQUIVALENTS	2,017	(2,135)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>514</u>	<u>7,230</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>2,531</u></u>	<u><u>5,095</u></u>

The financial statement was approved by the Board of Directors and was signed on behalf of Advance Terrafund REIT by:

Radoslav Manolov
Executive Director

Yoana Georgieva
Drafting Accountant

22 July 2008

The notes attached hereto are an integral part of the financial statement.

ADVANCE TERRAFUND REIT

STATEMENT OF THE CHANGES IN THE EQUITY CAPITAL

for the period ending on 30 June 2008

All the amounts are in thousand Bulgarian levs (BGN thousand) unless explicitly stated otherwise

	<u>Fixed capital</u>	<u>Premiums from issues</u>	<u>Retained profit</u>	<u>Total</u>
BALANCE AS AT 31 DECEMBER 2007	44,056	7,701	7,778	59,535
Net profit for 2007	-	-	23,044	23,044
Current period loss	-	-	(539)	(539)
BALANCE AS AT 30 JUNE 2008	<u>44,056</u>	<u>7,701</u>	<u>30,283</u>	<u>82,040</u>

The financial statement was approved by the Board of Directors and was signed on behalf of Advance Terrafund REIT by:

Radoslav Manolov
Executive Director

Yoana Georgieva
Drafting Accountant

22 July 2008

The notes attached hereto are an integral part of the financial statement.

1. General information

Advance Terrafund REIT

Advance Terrafund REIT (“the Company”, “the Fund”) is a public joint stock company established at its Meeting of Incorporation on 12 April 2005 with an initial equity capital in the amount of BGN 500,000 divided into 500,000 shares with a par value of BGN 1 each. The company was registered by the Sofia City Court on 26 April 2005 and was entered in the Commercial Companies Register of the Sofia City Court under Company Case File No.4785/2005, Lot Number 92950, Volume 1216, Register I, Page 149. The Company’s domicile and registered address is: No.57 Hristo Botev blvd, City of Sofia.

The principal activity of the Company is the investment of money, raised through public offering of own shares, into real estate properties (securitization of real estate properties) by purchasing ownership title and other real rights to real estate properties and performing construction works and improvements in the said real estate properties for the purpose of placing them under management, renting them out, leasing them out and/or selling them.

The special legislation pertaining to the activities of the Company is contained and stems primarily from the Real Estate Investment Trusts Act (REIT Act) and the Public Offering of Securities Act (POSA). Based on these acts, the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained Licence No. 10-ДСИЦ/08.12.2005 issued on the grounds of Resolution No.452-ДСИЦ of 14 July 2005 of the Financial Supervision Commission.

The Company was established for an indefinite time period.

The Company has a one-tier management structure. The Board of Directors (BD) of the Company consists of the following persons: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the Board of Directors and Nencho Ivanov Penev – Member of the Board of Directors.

Karoll Finance EOOD, which is a shareholder and owns 13.17% of the equity capital of Advance Terrafund REIT as at 30 June 2008, provides consulting and other services such as administrative, accounting and recruiting services.

Subsequent to the establishment of the Company in 2005, four consecutive increases of the equity capital of the Company took place and the equity capital amounts to BGN 44,056,058 as at 30 June 2008.

2. Basis for preparing the financial statements

These financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) approved for application by the European Commission.

Accounting assumptions and approximate accounting estimates

The preparation of the financial statements requires from the management to make estimates and assumptions which affect the balance sheets value of the assets and liabilities as at the balance sheet date and the revenues and expenses over the fiscal period, as well as the disclosure of contingent assets and liabilities. In spite of the fact that these estimates are based on the most accurate assessment of the current events by the management and on the information available as at the date of publishing the financial statements, the actual future outcomes may turn out to be different from the forecasting estimates.

2. Basis for preparing the financial statement (continued)

The expenses and revenues of the Fund are accrued daily in accordance with the accrual principle.

The Statement of Cash Flows was prepared based on the direct method.

Currency of account

In accordance with the requirements of the Bulgarian accounting legislation, the Fund keeps its accounting records and prepares its financial statements in the official national currency of the Republic of Bulgaria – the Bulgarian lev – which is the main currency of account for the activities of the Company. Since 1 January 1999 the Bulgarian lev has been pegged to the euro at the exchange rate of BGN 1.95583 = EUR 1.

3. Main aspects of the accounting policy

Investment properties

The investment properties in which the Company invests money are land, which is held for receiving revenues in the form of rent and capital gains.

The investment properties are initially valued at prime cost, which includes the acquisition price, as well as all direct expenses associated with the acquisition of the properties. The subsequent expenses associated with the investment property which has already been recognized are added to the balance sheet value of the investment property in those cases when it is highly probable that the enterprise will derive future economic benefits exceeding the initially estimated carrying value of the existing investment property.

The subsequent valuation of the investment properties is performed by using the fair value method, according to which, after the initial recognition of the asset at acquisition cost, its carrying value is adjusted to reflect the changes in its fair value recognized in the income statement.

The Company rents out its investment properties retaining to itself all the significant risks and benefits of the ownership thereof.

Cash

The cash and cash equivalents include cash in safes and current bank accounts and short-term bank deposits with an usual time-to-maturity of up to 3 months.

Transactions in foreign currencies

The transactions denominated in foreign currencies are reported in levs at the exchange rate of the Bulgarian Central Bank (BCB) as of the dates of the respective transactions. The assets and liabilities denominated in foreign currencies are reported as at the date of drawing up the balance sheet at the closing exchange rate of the BCB.

The gains and losses as a result of exchange rate differences and trade in foreign currencies are reported in the income statements in the period of their occurrence.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ending on 30 June 2008

All the amounts are in thousand Bulgarian levs (BGN thousand) unless explicitly stated otherwise

3. Main aspects of the accounting policy (continued)

The Company does not engage in any significant transactions denominated in foreign currencies other than the BGN and EURO and therefore is not exposed to exchange rate risk.

Short-term receivables and liabilities

The short-term receivables are recognized at their expected realizable value.

The current liabilities are recognized at their inception value at which they are expected to be repaid in the future.

Rental revenues

The revenues from renting out the investment properties are recognized in the income statement according to the direct method and the term of the contract.

Interest revenue

The revenues from interest on deposits are recognized on an accrual basis in the income statement of the company according to the terms of the deposit contract.

4. Investment properties

As of 30 June 2008 the investment properties include: agricultural land with an area of approximately 229,166 dka and a value of BGN 73,774,000, properties in the process of regulation with an area of approximately 128 dka and a value of BGN 19,383,000 and a property in regulation with an area of approximately 11 dka and a value of BGN 3,499,000, or a total of BGN 96,656,000, including BGN 33,282,000 of revaluation to fair value.

As of 30 June 2008, the Company has concluded rental contracts for renting out approximately 141,800 dka of agricultural land. The revenues of BGN 1,241,000 received from renting out properties are recognized in the income statement.

5. Rent and other receivables

	As at 30 June 2008	As at 30 June 2007
Advance payments to suppliers, brokers and counterparties	1,539	456
Rental receivables	1,609	2,149
Other	16	45
Total	<u>3,164</u>	<u>2,650</u>

6. Cash and cash equivalents

	As at 30 June 2008	As at 30 June 2007
Cash in safes	42	356
Current bank accounts in BGN	2,489	2,739
Bank deposits in BGN	-	2,000
Total	<u>2,531</u>	<u>5,095</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ending on 30 June 2008

All the amounts are in thousand Bulgarian levs (BGN thousand) unless explicitly stated otherwise

7. Bank loans

On 31 March 2008 the Company concluded a contract for an investment loan with the London Branch of the National Bank of Greece. The loan is in the amount of EUR 15,000,000 (fifteen million euros) and is intended for refinancing the principal of the loan payable to the Sofia Branch of ING Bank N.V. and for financing the purchase of investment properties. The absorption of the funds will take place in tranches by 30 September 2008 at the latest. The interest on this loan is accrued at an interest rate equal to the 1-month EURIBOR plus a surcharge of 2.50 /two point fifty/ basis points per annum and will be paid on a monthly basis. The principal will be repaid by 31 March 2009 by a one-off lump-sum payment. The collateral for this loan is a special pledge of the enterprise and a special pledge of present and future receivables in the amount of EUR 15,000,000 (fifteen million euros).

As at the date of this balance sheet, a portion amounting to a total of EUR 8,350,000 (eight million and three hundred and fifty thousand euros) of the loan has been absorbed.

On 11 June 2008 the Company repaid in full its liability under a loan payable to the Sofia Branch of ING Bank N.V.

8. Current liabilities

	As of 30 June 2008	As of 30 June 2007
Liabilities to suppliers and clients	30	35
Advance payments received	3,471	-
Liabilities to personnel	7	-
Liabilities to social and health insurance institutions	3	1
Tax liabilities	7	-
Liabilities to the Servicing Company (Note 11)	462	278
Total	<u>3,980</u>	<u>314</u>

On 20 July 2007 the Company concluded a contract with the commercial company "Project Estate-EOOD" for instituting a right to build on the Regulated Land Property owned by the company in the Town of Stara Zagora for the purpose of building a mall. An advance payment in the amount of BGN 3,470,000 was received under this contract.

9. Expenses on external services

	Period ending on 30 June 2008	Period ending on 30 June 2007
Expenses on consulting services	930	970
Expenses on commissions	159	-
Expenses on insuring of receivables	15	-
Expenses on translation of documents	11	2
Expenses on advertising	18	3
Annual fees	4	4
Other expenses and fees	29	41
Total	<u>1,166</u>	<u>1,020</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ending on 30 June 2008

All the amounts are in thousand Bulgarian levs (BGN thousand) unless explicitly stated otherwise

10. Financial expenses

	Period ending on 30 June 2008	Period ending on 30 June 2007
Transaction costs and expenses on deletion of mortgages	146	3
Expenses on interest on a bank loan	428	24
Other financial expenses	1	1
Total	<u>575</u>	<u>28</u>

11. Contract for services

The Company has concluded a contract for services with Karoll Finance EOOD, which owns a share of the equity capital of the Company in the amount of 13.17%. Under the abovementioned contract, Karoll Finance EOOD provides consulting and administrative services, as well as recruiting services, in exchange for an annual fee. The total amount of the fee under the service contract for the current period is BGN 914,000.

12. Events after the balance sheet date

Advance Terrafund REIT is in the process of convening a General Meeting of the Company Shareholders, who own ordinary registered shares with voting rights, and this General Meeting will be held on 30 July 2008 in the City of Sofia, No.14 Todor Kableshkov blvd, Anel Hotel, Floor 5, Anel Hall at 09:30 a.m.

In the absence of quorum the General Meeting will be held on 14 August 2008 at 09:30 a.m. at the same location.

By virtue of Resolution No.788-E of 16 July 2008, the Financial Supervision Commission approved a prospectus for initial public offering of securities to be issued in the amount of BGN 66,084,087 divided into 66,084,087 ordinary, dematerialized, registered, transferable shares with a par value of BGN 1 (one) each and an issuing value of BGN 1.90 each. These shares will be issued as a result of an increase of the equity capital of Advance Terrafund REIT in accordance with the decision adopted at a session of the Board of Directors held on 17 June 2008.

Radoslav Manolov
Executive Director

Yoana Georgieva
Drafting Accountant

22 July 2008