

**ADVANCE TERRAFUND REIT**

**ANNUAL REPORT OF THE ACTIVITY,  
INDEPENDENT AUDITOR'S REPORT AND  
ANNUAL FINANCIAL STATEMENTS**

December 31, 2007

*(Unofficial translation of the original in Bulgarian)*

**ADVANCE TERRAFUND REAL ESTATE INVESTMENT TRUST**

**ANNUAL MANAGEMENT**  
**REPORT**

**2007**

## **ADVANCE TERRAFUND REIT**

Advance Terrafund REIT (the Company) is a public joint-stock company established at a Constituent Meeting from 12 April 2005, with initial capital amounting to BGN 500 thousand divided into 500,000 shares with par value BGN 1 each. The Company was registered at Sofia City Court on 26 April 2005 and was entered into the Commercial Register of Sofia City Court under company № 4785/2005, batch number 92950, volume 1216, reg. I, page. 149. The seat and management address of the Company are in Sofia, 57 Hristo Botev Blvd.

The Company's subject of activity is investment of funds raised through public offering of equity in real estate (securitization of real estate) through purchase of rights of ownership and other property rights on real estate and real estate construction and improvements with the purpose of providing them for management, renting, leasing out, and/or selling them.

The special legislation concerning the activity of the Company is contained and derives mainly from the Law on Special Purpose Investment Vehicles (LSPIV) and the Law on Public Offering of Securities (LPOS). Pursuant to these, the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company was granted license № 10-ДСИЦ/08.12.2005, issued pursuant to Decision № 452-ДСИЦ from 14 July 2005 of the Financial Supervision Commission.

The Company is established for an unlimited period of time.

The Company has a one-tier management system. The Board of Directors (BD) of the Company is in composition as follows: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov - Chairman of the BD and Nencho Ivanov Penev – Member of the BD.

Karoll Finance EOOD, which is a shareholder with 13.16% of the capital of Advance Terrafund REIT as of 31 December 2007, provides consultancy and other services such as administrative, accounting and recruitment services.

After the incorporation of the Company in 2005, the Company has performed four consequent capital increases and as of 31 December 2007 the capital is BGN 44,056,058.

## **Investment strategy, purpose and limitations of the Company**

Advance Terrafund REIT is a joint-stock investment vehicle with special purpose securitization of real estate. The Company can acquire property rights only on agricultural, urban and forest real estate located on the territory of the Republic of Bulgaria. As per the Statutes of Advance Terrafund REIT adopted at the Constituent Meeting of the Company from 12 April 2005, its investment purposes are:

- To afford its shareholders the opportunity to invest in a diversified portfolio of real estates, following the principle of risk distribution;
- To ensure for its shareholders preservation and increase of the value of their investments through realization of steady revenues with a balanced risk distribution.

The strategy of the Company envisages investment in real estate meeting the requirements of Article 9 of the Statutes of Advance Terrafund REIT with the purpose receiving current revenues from rental, leasing and conceded right of use contracts as well as through the sale of these real estates with a view of forming steady revenues. In order to achieve its main purpose the Company may apply suitable strategies for protection from market and currency risks.

### **Financial objectives:**

- Providing steadily increasing current revenues for the shareholders in the form of cash dividends through renting out the land owned by the Company;
- Maximizing the value of the shareholders' investments through constant active management of the assets of the Company and acquisition/sale of agricultural property;
- Diversification of the portfolio of agricultural property through investment in various types of agricultural property (arable land, land with perennial plants, vineyards, etc.) located in different regions of the Republic of Bulgaria, with a view to reducing the non-systematic risks of the investment portfolio;
- Securing liquidity for the shareholders of the Company through listing of the shares of Advance Terrafund REIT for trade at Bulgarian Stock Exchange - Sofia;
- Performing the necessary capital increases with the purpose of structuring a balanced portfolio of real estate.

**The investment policy** of the Company envisages that it invests the raised capital in real estate determined according to their main and specific designation as per the development designs and the detailed development plan as follows:

- Landed property in urbanized territories /settlements and villages / – designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Landed property in agricultural territories – arable land /fields, orchards and, vineyards, meadows, etc./ and non-arable land;
- Landed property in forest territories – forests and forest land;

According to the investment policy of the Company the investments in landed property represent up to 90% of the balance value of the assets of the Company for the respective year as per its annual financial statements.

The Company has the following possibilities for investment of its free funds:

- Securities issued or guaranteed by the Bulgarian state and bank deposits – without limitations;
- Mortgage bonds issued according to the procedures and under the provisions of the Law on Mortgage Bonds – up to 10% of the assets of the Company.

The Law on Special Purpose Investment Vehicles allows investments of up to 10% of the capital of the Company in one or more servicing companies.

### **1. Information presented in values or quantities about the main categories of goods, products and/or rendered services, indicating their share in the sales revenues of issuer as a whole and the changes during the accounting financial year.**

As of 31 December 2007 the investment properties include: agricultural land of approximately 216,514 decares amounting to BGN 69,271 thousand, properties in the process of regulation of approximately 121 decare amounting to BGN 19,159 thousand and

regulated real estate of approximately 11 decares amounting to BGN 3,499 thousand, including BGN 33,282 thousand valued at fair value.

As of 31 December 2007 the total value of the investment property amounting to BGN 91,929 thousand includes revaluation increases amounting to BGN 24,090 thousand and BGN 8,398 thousand for 2007 and 2006 respectively. Revaluation revenues amount to 92.78% for 2007 and 95.02% for 2006 of the total amount of the revenues of the Company. These revaluation increases are based on reports of an independent appraiser licensed by the Ministry of Agriculture hired by the Company to perform the annual revaluation of the investment properties according to Article 20, Para. 1 and 2 from the LSPIV from 10 March 2008 and 22 February 2007 respectively for the revaluation increases for 2007 and 2006.

In 2007 the Company realized six exchanges of investment properties, three of which with Municipal Land Funds and the other three with legal persons, with the following parameters:

Exchange parties	Exchanged land, decares	Value of the exchanged land, BGN thousand	Land acquired through exchange, decare	Value of the land acquired through exchange, BGN thousand
Vitivinea OOD	87	15	87	17
Topolovgrad Municipality	1,054	228	892	295
Gulubovo Municipality	264	49	205	80
Nova Zagora Municipality	333	85	332	244
Apolonia Vineyards EOOD	136	30	137	34
Vitivinea OOD	59	12	59	14
<b>Total</b>	<b>1,933</b>	<b>419</b>	<b>1,712</b>	<b>684</b>

The realized revenues from exchanges and sales of real estate in 2007 amount to BGN 692 thousand, which is 2.67% of the total revenues of the Company for the period.

The Company has signed rental contracts for approximately 69,469 decares as of the end of 2007 and 33,800 decares agricultural land as of the end of 2006. The realized revenues from rents for 2007 amount to BGN 886 thousand, representing 3.41% of the revenues for the period, and for 2006 - BGN 97 thousand and 1.1% of the revenues for the period.

**2. Information about the revenues divided into the separate categories of activities, domestic and foreign markets, and information about the sources for supply of materials necessary for the production of goods or rendering of services, reflecting the level of dependency for each separate seller or buyer/consumer, and in case the relative share of any of them exceeds 10 percent of the costs or sales revenues, information is provided on each person separately, its share in the sales or purchases and its relations with the issuer.**

	The year ending on 31.12.2007	The year ending on 31.12.2006
Revenues from interests	296	156
Revenues from sales and exchanges of investment property	692	187
Revenues for rents and leases of investment property	886	97
Revenues from revaluation of investment property, net	24,090	8,398
<b>REVENUES FROM THE ACTIVITY</b>	<b>25,964</b>	<b>8,838</b>

ADVANCE TERRAFUND REIT is a joint-stock special purpose investment vehicle for securitization of real estate. The Company functions as a collective scheme for investment in real estate. Securitization of real estate means that the Company purchases real estate with cash raised from the issuance of securities /shares, bonds /.

Pursuant to the LSPIV the Company can invest its raised funds only on the territory of the Republic of Bulgaria, which excludes foreign markets.

Sources of funding of the activity in 2007 are the raised funds from the increase of the capital ending in January and a fully absorbed bank loan.

The Company is not dependent on buyers or sellers with a share of over 10 percent of the costs or revenues of the Company. In view of the fragmented nature of the real estate, the value of the transactions is less than 1 % of the revenues or costs of the Company.

**3. Information about concluded major transactions or such of material importance for the activity of the issuer.**

In 2007 the Company has not concluded single major transactions or transactions of material importance.

The bought properties in the region of the city of Sofia in the territory of Vrazhdebna and Chelopechene as a result of which two plots of 13 and 44.4 decares were consolidated may be regarded as major transactions.

**4. Information about the transactions signed between the issuer and related persons during the accounting period, proposals for signature of such transactions, and transactions which are outside its usual scope of activity or deviate significantly from the market conditions, to which the issuer or its subsidiary are a party, the nature of the affiliation and any information necessary for evaluation of the impact on the financial state of the issuer.**

The transaction from 20 July 2007 may be regarded as a transaction with related parties, then the Company signed a contract with commercial company Project Estate EOOD for constituting right of construction on the owned Regulated Landed Property in the town of Stara Zagora for the construction of a commercial complex. Pursuant to this contract an advance payment was received in advance and amounts to BGN BGN 1,750 thousand. The rest of the contractual price for the right of construction will be paid on the day of signature of the notary form of the contract.

The affiliation with the indicated company is due to the fact that the servicing company Karoll Finance is also a consultant to Advance Equity Holding – the owner of Project Estate EOOD.

During the accounting period Advance Terrafund REIT does not have transactions with related parties and proposals for executions of such or transactions which are outside its normal scope of activity or deviate materially from the market conditions. The Company does not have and cannot have subsidiaries.

**5. Information about events and indicators of unusual for the issuer nature, having material influence on its activity and the realized revenues or incurred costs; evaluation on their impact on the results for the current year.**

In 2007 there are no events and indicators of a nature unusual for the Company.

**6. Information about transactions accounted for out of the balance – nature and business purpose, indicating the financial impact of the transactions on the activity, if the risks and benefits from these transactions are essential for the issuer and if the disclose of this information is material for the evaluation of the financial state of the issuer.**

The Company does not have deals accounted for out of the balance.

**7. Information about share participations of the issuer, its main investments in the country and abroad (in securities, financial instruments, dematerialized assets and real estate), and the investments in share securities outside its economic group and sources/means of financing.**

The Company does not have share participations in share securities.

**7.1. Sources of funding of Advance Terrafund REIT**

**- Equity**

The capital of the Company is fully paid up in the form of monetary contributions. The shares for the first two consequent increases have been subscribed at par and issue value of BGN 1. At the third successful increase of the capital the shares have been subscribed at par value of BGN 1 and issue value of BGN 1.20, which forms reserves amounting to BGN 2.208 million. The Company has performed a fourth successful increase of the capital amounting to BGN 21,969,329 at par value of BGN 1 and issue value of BGN 1.25 per share, registered with Decision №5 of Sofia City Court from 24.01.2007, from BGN 22,089,729 to BGN 44,056,058.

**- Bank loans**

The Company has utilised bank loans described in detail in Item 8.

**7.2. Investment property of Advance Terrafund REIT**

As of 31 December 2007 the investment properties include: agricultural land of approximately 216,514 decares amounting to BGN 69,271 thousand, estate in the process of regulation of approximately 121 decares amounting to BGN 19,159 thousand and regulated real estate of approximately 11 decares amounting to BGN 3,499 thousand, or a total of BGN 91,929 thousand, including BGN 33,282 thousand revaluation at fair value.

As of 31 December 2006 the investment properties include: agricultural land of approximately 123,500 decares amounting to BGN 30,027 thousand, estate in the process of regulation of approximately 10 decares amounting to BGN 3,133 thousand and regulated real estate of approximately 11 decares amounting to BGN 3,332 thousand, or a total of BGN 36,492 thousand, including BGN 9,192 thousand revaluation at fair value.

As of 31 December 2007 the total value of the investment properties of BGN 91,929 thousand includes increases from revaluation amounting to BGN 24,090 thousand in 2007 and respectively BGN 8,398 thousand for 2006. These increases from revaluation are based on reports of an independent valuator licensed by the Ministry of Agriculture hired by the Company to perform the annual revaluation of the investment properties according to Article 20, Para. 1 and 2 of LSPIV, from 10 March 2008 and 22 February 2007 respectively for the revaluation increases in 2007 and 2006.



Land Categorization:

The agricultural land in Bulgaria is assigned average agricultural rating aimed to evaluate the suitability of the land for growing of agricultural crops. According to suitability, it ranges from 1 to 10. Category 1 is the most suitable for agriculture, and category 10 is the most unsuitable. Most of the agricultural land in Bulgaria falls within categories 3 to 6, and most of the land purchased by the Company is in these categories.

Table 1: Allocation of the land purchased by ADVANCE TERRAFUND REIT, by categories.

<i>Land category</i>	<i>Surface in decares</i>	<i>% of the total volume of purchased land</i>
1	331	0.15%
2	6 516	3.01%
3	77 792	35.93%
4	75 597	34.92%
5	38 514	17.79%
6	15 046	6.95%
7	1 780	0.82%
8	131	0.06%
9	547	0.25%
10	260	0.12%
<b>TOTAL</b>	<b>216 514</b>	<b>100 %</b>

In the process of land selection the Company focused on investments in regions of the country characterized with well developed rental relations, the allocation of which is given in Table №2.

Table 2: Allocation of the land purchased by ADVANCE TERRAFUND REIT by regions.

<b>REGION</b>	<b>DECARES PURCHASED</b>	<b>% OF THE TOTAL VOLUME</b>
Northwestern	31 178	14%
Central northern	64 221	30%
Northeastern	96 386	45%
Southeastern	8 282	4%
Central southern	16 447	8%

**8. Information about the transactions concluded by the issue, its subsidiary or parent company in their capacity of borrowers, loan agreements and their terms, including reimbursement deadlines, and information about guarantees given and undertaken obligations.**

As 31 December 2007 and 2006 the short-term loans of Advance Terrafund REIT comprise of:

	Interest	As of 31.12.2007	As of 31.12.2006
Loan Allianz Bulgaria AD Commercial Bank.	BIR of BNB+ 3.56%	-	5,000
Loan ING Bank	SOFIBOR +2.75%.	8,000	-
TOTAL SHORT-TERM LOANS, BGN thousand		8,000-	5,000

On 03 August 2007 the Company signed a bank loan agreement with ING Bank – branch Sofia. The bank loan was utilized in three disbursements for the period from 28 September 2007 to 09 November 2007, at an interest amounting to SOFIBOR plus 2.75%. The interest is paid on a monthly basis, and the reimbursement of the principal will be executed with a single installment not later than 30 June 2008. The collateral for the loan is a contract for pledge of receivables from rents and leases and registered mortgages on a large part of the owned property in urbanized territories. The interests to this loan amount to BGN 151 thousand and are indicated in the income report.

As of the end of 2006 the Company had absorbed a bank loan amounting to BGN 5 million by Allianz Bulgaria AD Commercial Bank, and as of the date of drafting of this report, the Company has reimbursed its obligations to the bank. The bank loan to Allianz Bulgaria was fully reimbursed in 2007.

**9. Information about rental contracts signed by the issuer, its subsidiaries or parent companies, in their capacity of lenders, including providing guarantees of any kind, including affiliated persons, and the specific terms of such contracts, including payment deadlines and the purpose for which there have been extended.**

The Company has not extended loans and provided guarantees to third persons.

**10. Information about the use of the funds raised through a new issue of securities during the accounting period.**

In 2007 the Company performed a forth successful capital increase amounting to BGN 21,969,329 at par value of BGN 1 and issue value of BGN 1.25 per share, registered with Decision N<sup>o</sup>5 of Sofia City Court from 24.01.2007, from BGN 22,089,729 to BGN 44,056,058. The funds raised through the increase were fully invested in real estate compliant with the investment policy of the Company, namely:

- Landed property in urbanized territories /settlements and villages / – designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Landed property in agricultural territories – arable land /fields, orchards and, vineyards, meadows, etc./ and non-arable land;
- Landed property in forest territories – forests and forest land;

**11. Analysis of the ratio between the achieved financial results indicated in the financial statements for the financial year and earlier published estimates for these results.**

**Estimates for the main balance indicators published on 30.03.2007.**

Сума (лева)

	Estimates for	Actual as of
	31.12.2007	31.12.2007
ASSETS	<b>78,896</b>	<b>93,535</b>
LIABILITIES	<b>10,400</b>	<b>10,956</b>
NET ASSETS	<b>68,496</b>	<b>82,579</b>
TOTAL EQUITY	<b>68,496</b>	<b>82,579</b>

**Income Statement estimates published on 30.03.2007**

	Estimates for 31 December 2007	Actual for 31 December 2007
Interest income	160	296
Income from investment property operators	4,240	692
Income from leases and rents of investment property		886
Gains on revaluation of investment property, net	6,600	24,090
<b>OPERATING REVENUES</b>	<b>11,000</b>	<b>25,964</b>
Expenses for materials	7	
Expenses for hired services	1,802	2,171
Personnel costs	45	67
Book value of the property sold		426
Other costs (including financial)	185	256
<b>OPERATING COSTS</b>	<b>2,039</b>	<b>2,920</b>
<b>NET PROFIT</b>	<b>8,961</b>	<b>23,044</b>

As per the current financial statements the Company reports exceeding the estimate financial results by 257 %.

**12. Analysis and evaluation of the policy regarding the management of the financial resources indicating the means for servicing of the debt, potential threats and measures which the issuer has undertaken or is about to undertake in view of their elimination.**

The Company uses debt financing after investment of the raised share capital. The policy of the Company is to sign short-term bridge credits until the next capital increase.

The gearing ratio /debt to equity / at the end of the year is as follows:

	The year ending 31.12.2007	The year ending 31.12.2006
<b>Debt</b>	10,956	12,240
Funds in cash and cash equivalents	(514)	(7,230)
Net debt	10,442	5,010
<b>Equity</b>	82,579	32,074
Ratio Net debt/Equity	13%	16%

The main risk related to the servicing of the debt is the floating interest rate which is tied to the levels of the monthly SOFIBOR. In 2007 all indices, including SOFIBOR, have marked a steady increase. In case that this trend is preserved this will lead to payment of higher interest costs.

**13. Evaluation of the potential for realization of investment intentions indicating the amount of the available funds and the possible changes in the funding structure for this activity.**

The internal sources of liquidity at the end of 2007 were insufficient to provide for the investment process, which was the reason for the Company to secure funding from external sources.

After a thorough analysis of the market perspectives and the sources of liquid funds, the Board of Directors of the Company made the decision to initiate a procedure for negotiating a mortgage loan with ING Bank – branch Sofia. The bank loan was absorbed in three tranches for the period from 28 September 2007 to 09 November 2007, at an interest amounting to SOFIBOR plus 2.75%.

For collateral Advance Terrafund REIT set up contractual mortgages on the owned real estate in Sofia and Vratsa.

The potential for the Company to cover its current costs and respectively to realized its investment intentions can be expressed with the liquidity quotients for 2007.

General liquidity ratio

	2007	2006
Current assets	BGN 1,605,901	BGN 7,821,885
Current liabilities	BGN 10,955,943	BGN 12,239,438
General liquidity quotient	0.15	0.64

Due to the nature of the capital increases of the Company, upon each future increase of the capital there will be a temporary increase of the liquidity of the Company at the time of absorption of the capital until its full investment or reduction of the liquidity at the time of the increase procedure.

	2007	2006
Total current assets	BGN 1,605,901	BGN 7,821,885
Total current liabilities	BGN 10,955,943	BGN 12,239,438
Net turnover capital	BGN (9,350,042)	BGN (4,417,553)

As 31.12.2007 there was a reduction of the liquidity as compared to 2006, which was due to the full investment of the equity and attracted capital of the Company in investment properties.

**14. Information about changes during the accounting period in the main management principles of the issuer and its economic group.**

During the accounting period there are no changes in the main management principles of the issuer and its economic group.

**15. Information about the main characteristics of the applied by the issuer in the process of drafting of financial statements internal control system and risk management system.**

The financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) endorsed for application by the EU Commission

The applied system for internal control and risk management in the process of preparation of the financial statements ensures that the information in the financial statements present a true and fair view of the company's financial results. For the purpose of this dynamic process the management has created a suitable organization and ensured the necessary personnel. The system prevents errors or violations and allows for their identification within reasonable intervals of time.

The internal control ensures the storage and protection of the assets, the correct reporting and accounting of the transactions and the effective and efficient achievement of the Company's goals in compliance with the requirements of the legislation and the management policy.

The components of the internal control system comprise of:

- Control environment;
- Risk evaluation;
- Control operations;
- Information and communication system;
- Monitoring and correction measures;

**16. Information about changes in the management and supervisory bodies during the accounting financial year.**

During the accounting period there were no changes in the management and supervisory bodies.

**17. Information about the amount of the remunerations, awards and/or benefits of each member of the management and supervisory bodies for the accounting financial year, paid by the issuer and its subsidiaries, regardless of whether they are included in the costs of the issuer or arise from the distribution of the profit, including:**

**a) amounts received and non-monetary remuneration;**

As per the Statutes of the Company each of the members of the Board of Directors of the COMPANY receives a monthly remuneration of an amount determined by the General Assembly, which cannot exceed 10 /ten/ times the amount of the minimal salary determined for the country.

Borislav Vitanov Petkov	BGN 13,800
Radoslav Iliev Manolov	BGN 19,200
Nencho Ivanov Penev	BGN 13,800

The Company does not follow a policy for allocation of non-monetary remunerations.

**b) conditional or deferred remunerations arising during the year, even if the remuneration is due at a later time;**

The Company has not allocated conditional or deferred remunerations.

**c) amounts payable by the issuer or its subsidiaries for pensions, retirement compensations or other similar compensations.**

The company does not have to payable amounts for pensions, retirement compensations or other similar compensations.

**18. Information about shares of the issuer held by members of the management or supervisory bodies, procurators and chief executives, including the shares held by each of them separately and as a percentage of the shares of each class, and provided by the issuer options on its securities – type and amount of the securities on which options have been set up, price of exercising of the options, purchase price, if any, and term of the options.**

<b>Person</b>	<b>Radoslav Iliev Manolov</b>	
<b>Position</b>	Executive Director	
<b>Number of voting shares in the capital as of 31.12.2007</b>		<b>41,000</b>
<b>Percent of the capital as of 31.12.2007</b>		<b>0.09%</b>

<b>Person</b>	<b>Borislav Vitanov Petkov</b>	
<b>Position</b>	Chairman of the BD	
<b>Number of voting shares in the capital as of 31.12.2007</b>		<b>10,000</b>
<b>Percent of the capital as of 31.12.2007</b>		<b>0.02%</b>

The Company has not provided options on its securities.

**19. Information about agreements of which the Company is aware (including subsequent to the financial year end), as a result of which in a future period changes may be effected in the relative number of shares or bonds owned by shareholders or bond holders.**

As of 31.12.2007 and as of the time of preparation of the present report the Company's management is not aware of agreements as a result of which in a future period changes may be effected in the relative number of shares or bonds owned by present shareholders or bond holders.

**20. Information about pending lawsuits, administrative or arbitration procedures relevant to obligations or receivables of the issuer amounting to at least 10 percent of its equity; if the total value of the obligations or receivables of the issuer for all such procedures exceeds 10 percent of its equity, information about each separate procedure is presented.**

The Company does not have pending lawsuits, administrative or arbitration procedures relevant to obligations or receivables amounting to at least 10 percent of its equity.

**21. Data on the Investor Relations Director, including telephone number and correspondence address.**

Pursuant to the provisions of Article 116 of the LPOS and in compliance with the Statutes of the Company, the Investor Relations Director employed under a labor contract is Atanas Todorov Dimitrov.

**Correspondence address and telephone:**

57 Hristo Botev Blvd., Vuzrazhdane Region, Sofia  
 Phone: +3592 987 54 40, e-mail: [adimitrov@karoll.bg](mailto:adimitrov@karoll.bg) /net/

**22. Changes in the prices of the Company’s shares**



**23. Analysis and explanation of the information in Appendix № 11.**

23.1. Structure of the capital of the Company, including securities which have not been allowed for trading at a regulated market in the Republic of Bulgaria or another member state, indicating the different classes of shares, the rights and obligations for each class of shares and the part of the total capital comprising each separate class.

The structure of the capital of Advance Terrafund REIT, Sofia, as of 31.12.2007 is as follows:

- Capital of Advance Terrafund REIT: BGN 44,056,058 allocated in 44,056,058 ordinary registered dematerialized shares with par value BGN 1;
- Shares acquired by legal persons – 109 legal persons holding a total of 36,525,406 shares in the capital of Advance Terrafund REIT;
- Shares acquired by natural persons – 845 natural persons holding a total of 7,530,652 shares in the capital of Advance Terrafund REIT.



23.2. Limitation on the transfer of securities, such limitations on the ownership of securities or a requirement for approval by the Company or another shareholder.

The Statutes of Advance Terrafund REIT do not contain any limitations on the ownership of shares of the Company or a requirement for approval by the Company or another shareholder of the transfer of shares of the Company.

23.3. Information about the direct or indirect ownership of 5 percent or more of the voting rights in the General Assembly of the Company, including data about the shareholders, the amount of their share participation and the manner in which they own the shares.

As of 31.12.2007 shareholders in Advance Terrafund REIT – natural persons holding directly or indirectly 5 percent or more of the shares of the Company with voting rights are:

<b>Name</b>	<b>Stanimir Marinov Karollev</b>
Manner of ownership of the shares	Indirectly
Number of voting shares in the capital as of 31.12.2007	5,905,254
Percent of the capital and the votes in the General Assembly	13.40%

As of 31.12.2007 shareholders in Advance Terrafund REIT – legal persons with 5 percent or more of the voting shares of the Company are:

<b>Name</b>	<b>Karoll Finance EOOD</b>
Seat and address:	57 Hristo Botev Blvd., Sofia
BULSTAT code	131421411
Number of voting shares in the capital as of 31.12.2007	5,796,354
Percent of the capital and the votes in the General Assembly	13.16%

<b>Name</b>	<b>UNIVERSAL PENSION FUND DOVERIE AD</b>
Seat and address:	5 Dunav Str., Sofia
BULSTAT code	130474628
Number of voting shares in the capital as of 31.12.2007	2,483,553
Percent of the capital and the votes in the General Assembly	5.64%

23.4. Data about the shareholders with special control rights and description of these rights.

Advance Terrafund REIT does not have shareholders with special control rights.

23.5. System for control for exercising voting rights in the cases when employees of the Company are also its shareholders and when control is not exercised directly by them.

Pursuant to the regulation of Article 21, Para. 1 of the Statutes of Advance Terrafund REIT: *"Each share gives to its holder the right to one vote, the right to dividend and the right to a liquidation share, unless otherwise provided for in the decision of the Company body for a given issue of shares. A Company body cannot provide more than 1 /one/ vote per share."*

Pursuant to Article 22 of the Statutes of Advance Terrafund REIT: *"Each share gives its holder the right to one vote in the General Assembly of the shareholders unless issued as a non-voting share. The voting right is exercised by the persons entered in the registers of the Central Depository as shareholders 14 days prior to the date of the General Assembly."*

23.6. Limitations on the voting rights, such as limitations on the voting rights of shareholders holding a certain percentage or number of votes, deadline for exercising of the voting rights, or systems where with the cooperation of the Company the financial rights related to the shares are independent from the owning of the shares.

The Statutes of Advance Terrafund REIT do not contain limitations on the voting rights.

23.7. Agreements between shareholders of which the Company is aware and which may lead to limitations on share transfers or voting rights.

Advance Terrafund REIT is not aware of agreements between the shareholders which may lead to limitations in the transfer of shares or voting rights.

23.8. The provisions regarding the employment and release of the members of the management bodies of the Company and regarding amendments and additions to the Statutes.

The COMPANY is managed and represented by a Board of Directors comprising of 3 able-bodied natural and/or legal persons elected by the General Assembly of the shareholders.

The Board of Directors is elected for a period of 5 /five/ years, and the members of the first Board of Directors are elected for a period of 3 (three) years. The members of the Board of Directors can be reelected without limitations. After the expiry of the mandate of the members of the Board of Directors they continue to exercise their duties until the election by the General Assembly of a new Board of Directors."

The COMPANY's operations are managed by an Executive Director elected by a Board of Directors with a majority of 2/3 of the votes. The mandate of the Executive Director is the same as the mandate of the Board of Directors but until the election of a new Executive Director the same will continue to perform his/her duties. The management powers of the Executive Director are determined with the decision of the Board of Directors about his/her election and the contract for assignment of his/her management powers. The powers assigned to the Executive Director may be withdrawn at any time with a decision of the Board of Directors made with the majority necessary for his/her election. For his/her overall activity the Executive Director is responsible to the Board of Directors. At each regular meeting of the Board of Directors the Executive Director reports on his/her current activities. In the absence of the Executive Director his/her functions related to the management of the COMPANY are exercised temporarily by the Chairperson of the Board of Directors.

Any amendments and additions to the Statutes of Advance Terrafund REIT can be made only by the General Assembly of the shareholders.

23.9. Powers of the management bodies of the Company, including the right to make decisions for issuance and back purchase of shares of the Company.

The members of the Board of Directors have equal rights and obligations regardless of the internal distribution of the functions among them and the granting of management and representation rights to some of them. The Board of Directors makes decisions on the activity of the Company, as long as the respective decisions are not within the exclusive competence of the General Assembly pursuant to the existing legislation and the Statutes.

Within 5 /five/ years, as of the moment of incorporation of the COMPANY, the Board of Directors may increase the capital of the COMPANY through the issue of new shares. The total amount with which the capital of the Company can be increased according to the previous sentence cannot exceed BGN 150,000,000 /one hundred and fifty million/. The Board of Directors cannot make decisions regarding the back purchase of shares of the Company:

23.10. Major contracts of the Company which require actions, are amended or terminated due to changes in the control of the Company in cases of mandatory commercial offering, and their consequences, unless in cases when the disclosure of this information may cause serious damage to the Company; the exception under the previous sentence is not applied in cases when the Company is obliged to disclose the information by law.

Advance Terrafund REIT is not a party to contracts which require action, are amended or terminated due to changes in the control of the Company in case of mandatory commercial offering.

23.11. Agreements between the Company and its management bodies or employees for payment of severance pay upon leave or dismissal without legal cause or upon termination of the labor relations for reasons related to a commercial offering.

There are no agreements between Advance Terrafund REIT and its management bodies or employees for severance payments upon leave or dismissal without legal cause or termination of the labor relations for reasons related to a commercial offering.

#### **24. Other information at the discretion of the Company.**

The Company continues to invest in agricultural land and real estate property in urbanized territories. The trend for 2008 is stable growth of the prices of the two main types of land purchased by the Company.

The Company has entered into negotiations for the sale of some of its property in urbanized regions.

The expectations of the management are that in 2008 more than 130 thousand decares agricultural lands will be rented out, and as of the drafting of the report 105 thousand decares were rented out. All receivables for the financial 2007-2008 are insured by BAEZ , which mitigates the risk from bad receivables of the Company.

**Radoslav Manolov**  
**Executive Director**

**21.03.2008**



INDEPENDENT AUDITOR'S REPORT AND  
ANNUAL FINANCIAL STATEMENTS  
DECEMBER 31,2007

*This document is a translation of the original text in Bulgarian,  
in case of divergence the Bulgarian original is prevailing*

## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of  
Advance TerraFund ADSIC**

### *Report on the financial statements*

We have audited the accompanying financial statements of Advance TerraFund ADSIC (the "Company"), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the Financial Statements*

The management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS), as endorsed by the European Union Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and its financial performance and its cash flows for the year ended December 31, 2007, in accordance with the International Financial Reporting Standards, as endorsed by the European Union Commission.

*Other Reports on regulatory requirements - Annual report on the activities of the Company, prepared by management, according to article 33 of the Accountancy Act*

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual report on the activities of the Company, prepared by management. The Annual report on the activities of the Company, prepared by management, is not a part of the financial statements. The historical financial information presented in the Annual report on the activities of the Company, prepared by management, is consistent, in all material respects, with the annual financial information disclosed in the financial statements of the Company as of December 31, 2007, prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union Commission. Management is responsible for the preparation of the Annual report of the activities of the Company, dated March 21, 2008.

*Deloitte Audit*

Deloitte Audit OOD

*Sylvia Peneva*

Sylvia Peneva  
Managing Director  
Registered Certified Public Accountant



March 27, 2008  
Sofia

ADVANCE TERRAFUND REIT

BALANCE SHEET

As of December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Note	As of 31.12.2007	As of 31.12.2006
<b>ASSETS</b>			
Investment properties	4	91,929	36,492
Rent and other receivables	5	1,092	592
Cash and cash equivalents	6	514	7,230
<b>TOTAL ASSETS</b>		<b>93,535</b>	<b>44,314</b>
<b>LIABILITIES</b>			
Bank loans	7	8,000	5,000
Advances received for issuance of new shares		-	6,217
Current liabilities	8	2,956	1,023
<b>TOTAL LIABILITIES</b>		<b>10,956</b>	<b>12,240</b>
<b>NET ASSETS</b>		<b>82,579</b>	<b>32,074</b>
<b>EQUITY</b>			
Share capital	9	44,056	22,087
Share issue premium		7,701	2,209
Retained earnings		7,778	430
Net profit for the current period		23,044	7,348
<b>TOTAL EQUITY</b>		<b>82,579</b>	<b>32,074</b>

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund REIT by:

\_\_\_\_\_  
 Radoslav Manolov  
 Chief Executive Director

March 21, 2008



The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

INCOME STATEMENT

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	Year ended 31.12.2007	Year ended 31.12.2006
Interest income		296	156
Income from sale and exchange of investment properties	4	692	187
Income from rent of investment properties	4	886	97
Gains on revaluation of investment properties, net	4	24,090	8,398
<b>OPERATING INCOME</b>		<b>25,964</b>	<b>8,838</b>
Materials		-	(7)
Hired services	10	(2,171)	(1,247)
Employee benefits expense		(67)	(40)
Finance costs	11	(233)	(109)
Other expenses		(23)	-
Net book value of sold properties		(426)	(87)
<b>OPERATING EXPENSES</b>		<b>(2,920)</b>	<b>(1,490)</b>
<b>NET PROFIT</b>		<b>23,044</b>	<b>7,348</b>
Income per share (BGN)	14	0.54	0.40

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund REIT by:

\_\_\_\_\_  
Radoslav Manolov  
Chief Executive Director

March 21, 2008



The accompanying notes form an integral part of these financial statements.



ADVANCE TERRAFUND REIT

CASH FLOW STATEMENT

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Year ended 31.12.2007	Year ended 31.12.2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and contractors	(871)	(91)
Proceeds from rentals	2,196	16
Payments to employees	(124)	(38)
Other cash flows used in operating activities	(1,560)	(739)
Purchase of investment properties	(30,727)	(24,221)
<b>NET CASH FLOW USED IN OPERATING ACTIVITIES</b>	<b>(31,086)</b>	<b>(25,073)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issues of share capital	21,245	19,461
Proceeds from bank loans	8,000	5,000
Payments to bank loans	(5,000)	
Other cash flows from financing activities	125	62
<b>NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>	<b>24,370</b>	<b>24,523</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(6,716)</b>	<b>(550)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>7,230</b>	<b>7,780</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>514</b>	<b>7,230</b>

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund REIT by:

\_\_\_\_\_  
Radoslav Manolov  
Chief Executive Director

March 21, 2008



The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

STATEMENT OF SHAREHOLDERS' EQUITY

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

	Share capital	Share issue premiums	Retained earnings (Deficit) (As restated)	Total
BALANCE AS OF DECEMBER 31, 2005	11,050	1	430	11,481
Share capital increase in 2006	11,037	2,208	-	13,245
Net profit for 2006	-	-	7,348	7,348
BALANCE AS OF DECEMBER 31, 2006	<u>22,087</u>	<u>2,209</u>	<u>7,778</u>	<u>32,074</u>
Share capital increase in 2007	21,969	5,492	-	27,461
Net profit for the year	-	-	23,044	23,044
BALANCE AS OF DECEMBER 31, 2007	<u>44,056</u>	<u>7,701</u>	<u>30,822</u>	<u>82,579</u>

These financial statements are approved by the Board of Directors and signed on behalf of Advance TerraFund REIT by:

\_\_\_\_\_  
Radoslav Manolov  
Chief Executive Director

March 21, 2008



The accompanying notes form an integral part of these financial statements.

## 1. General information

### Advance TerraFund REIT

Advance TerraFund REIT (“the Company”, “the Fund”) is a public joint stock company set up at a Constituent meeting on April 12, 2005. Its initial registered capital amounts to BGN 500,000, divided into 500,000 shares with par value of BGN 1 per share. The Company is registered at the Sofia City Court on April 26, 2005 and is entered in the commercial register of the Sofia City Court under company case № 4785/2005, batch № 92950, volume 1216, reg. I, page 149. Its registered seat and address of management is 57 Hristo Botev Blvd., Sofia.

The Company’s scope of activity comprises investment of funds raised through public offering of the company’s equity securities; investment in real estate (securitization of real estate) through purchase of ownership and other property right on real estate; development and improvement of real estate for the purpose of the real estate being used, rented, leased, and/or sold.

The Company’s activity is regulated by specific legislation, mainly consisting of the Special Investment Purpose Companies Act (SIPCA) and the Public Offering of Securities Act (POSA). According to these laws, the Company is subject to supervision by the Financial Supervision Commission (FSC). The Company obtained license № 10, dated December 8, 2005 for its activities, under Decision № 452 issued by the FSC on 14 July 1, 2005.

The Company shall be incorporated for an indefinite period.

The Company has one-tier management structure. The members of the Company’s Board of Directors (BoD) are as follows: Radoslav Iliev Manolov – Chief Executive Director, Borislav Vitanov Petkov – Chairman of the BoD and Nencho Ivanov Penev – Member of the BoD.

Karoll Finance EOOD, which owns 13.16% of the total share capital of the Company, provides consulting and other services such as administrative, accounting and personnel services to the Company.

Since the Company’s incorporation in 2005, there have been four successive capital increases and the Company’s share capital as of December 31, 2007 amounts to BGN 44,056,058.

### Investment strategy, objectives and restrictions of the Company

Advance TerraFund REIT is an investment company with special investment purpose: securitization of real estate. The Company can acquire property rights on agricultural, urban, suburban and forest land, located in the territory of the Republic of Bulgaria. Pursuant to the Company’s Articles of Association, accepted at the Constituent meeting on April 12, 2005, the Company’s investment objectives are as follows:

- Provide its shareholders with the opportunity to invest in a diversified real estate portfolio, based on the risk diversification principle;
- Ensure the preservation and the increase in value of shareholders’ investments by means of generation of stable income at a balanced risk diversification.

**1. General information (continued)**

**Investment strategy, objectives and restrictions of the Company (continued)**

The Company's strategy prescribes investments in real estate pursuant to Article 9 of the Articles of Association of Advance TerraFund REIT with the purpose of generating current income from rentals, lease, leases, ceded right of use, as well as by means of sale of real estate in order to generate stable income. In order to achieve its main goal the Company is free to apply proper strategies for market and currency risk prevention.

The Company's financial goals are:

- Ensure stable income growth for the shareholders in the form of cash dividend, by renting out the owned real estate property;
- Maximize the value of the shareholders' investments, through continuous active management of the Company's assets and acquisition/sale of agricultural land;
- Diversification of the agricultural land portfolio through investing in various types of agricultural land (arable land, perennial plant land, vineyards, etc.), situated in different regions of Bulgaria, with the purpose of minimizing the non-systematic risk of the whole investment portfolio;
- Ensure liquidity for the shareholders by registering the shares of Advance TerraFund REIT for trading at the Bulgarian Stock Exchange – Sofia;
- Conduct the necessary increase in share capital in order to create a structured balanced portfolio of investment property.

According to its investment policy, the Company should invest the accumulated capital in real estate with clear main and specific purposes, according to the organizational schemes and plans and the detailed organizational plan. The real estate investment portfolio includes the following:

- Land in urbanized territories /urbanized areas and towns and villages/ – fit for residential, public, industrial, storage, resort, sports and entertainment functions;
- Land in agricultural territories – arable land /fields, fruit and vegetable gardens, vineyards, meadows and others/ and uncultivated land;
- Land in forest territories – forests and forest land

It is the Company's investment policy to maintain its real estate investment portfolio equivalent to 90% of the net book value of the Company's total assets as reported in its annual financial statements.

The Company may also invest the available financial resources of the Company in the following:

- Securities, issued and guaranteed by the Bulgarian State and bank deposits – without limits;
- Mortgage obligations, issued in accordance with the Mortgage Obligations Act – up to 10% of Company's assets.

The Special Investment Purpose Companies Act permits investment up to 10% of Company's capital in one or more servicing companies

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

## 2. Basis of preparation of the financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), endorsed for application by the EU Commission.

The following amendments in IAS and IFRS issued but not effective yet, have not been applied:

- IAS 1 Amendment – Presentation of Financial Statements, effective from January 1, 2009;
- IFRIC 14 and IAS 19 Amendment - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions, effective January 1, 2008;
- IFRS 8 Operating Segments, effective January 1, 2008;
- IAS 23 Change Borrowing Costs, effective January 1, 2009;
- IFRIC 11, IFRS 2 Group and Treasury Share Transactions, effective March 1, 2007;
- IFRIC 12 Service Concession Arrangements, effective January 1, 2009;
- IFRIC 13 Customer Loyalty Programmes, effective July 1, 2008.

In general the Management does not expect the above mentioned standards to reflect significantly on the financial statements of the Company as of December 31, 2007.

These financial statements are prepared under the historical cost convention except for the investment properties, financial assets held for trading and the investments available for sale which are recognised at fair value. The other financial and non-financial assets and liabilities are reported at amortized or historical cost.

### Accounting assumptions and accounting estimates

The preparation and presentation of the financial statements in compliance with IFRS requires management to apply some accounting assumptions and estimates which affect the reported assets and liabilities, income and expenses, contingent assets and liabilities. Although these assumptions and estimates are based on the best management's expectations and the available information as of the date of the financial statements, the actual results may differ from those stated in the current financial statements.

The Fund's income and expenses are daily charged on accrual basis.

The cash flow statement is prepared according to the straight method

### Functional and presentation currency

In accordance with the Bulgarian accounting legislation, the Company keeps its records and prepares its financial statements in the national currency of the Republic of Bulgaria – Bulgarian Lev (BGN), which from the beginning of January 1, 1999 is fixed to the EUR at: BGN 1.95583 for EUR 1.

### 3. Summary of significant accounting policies

#### Investment property

The properties in which the Company is interested to invest are lands held for generating of rental income or with the purpose for share capital increases .

Investment property is initially valued at cost, including the acquisition price, as well as all expenses incidental to or related to the acquisition of the investment property. Subsequent expenses, related to the investment property are added to the carrying amount of the investment property, when a probability exists that there would be future economic benefits, exceeding the initial expectations for the performance of the investment property.

Subsequent valuation of the investment property is carried out by applying the fair value model, which is used for valuation of investment property after its initial valuation at acquisition cost. By applying the fair value model, changes in fair values are recognized in the income statement.

At the end of each financial year, the investment property is valued by a licensed independent appraiser accredited by the Ministry of Agriculture in compliance with Article 20, items 1 and 2 of SIPCA. In valuating the Company's investment property as of December 31, 2007 and December 31, 2006, the independent appraiser used the model "fair market value". The fair market value (FMV) means the most probable value, at which a specific asset could be traded on a competitive market, keeping all conditions for a fair sale, namely: the buyer and the seller are aware of their actions, well informed about the respective asset and are guided by their own interests, both are acting of their own free will, taking into consideration the fact that the term of execution of the comparable transactions should not be reasonably long.

The following methods for valuation of agricultural land are applied:

- current market prices method;
- comparative sales method (market analogues);
- liquidation value method.

**Current market prices method**, according to Regulation for the conditions and the order for establishing current market prices for agricultural land, takes into consideration the particular characteristics of the property (qualitative, quantitative, location, condition, etc.). Market value of land is determined by applying differentiated administrative coefficients, based on the characteristics of the agricultural land to be valued. This market value could be used in various transactions between the State and individuals and/or corporate bodies such as purchase, substitution, etc. By using this valuation method the value of the property is the multiple of three quantities: the initial price of the land, the sum of the correctional coefficients plus 1 and the respective area of the property.

**Comparative sales method (market analogs)** – by applying this method the value of the land is determined by comparison with sales of land with the same or similar characteristics, and where information about the sale (including prices) is available and reliable. The closer the valuation date is to the time of transactions, the more reliable is the resulting market price of the land subject to revaluation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**3. Summary of significant accounting policies (continued)**

**Liquidation value method** – the liquidation value is considered as the lowest limit possible for the valuation of an asset. This is the value, which could be gained in the medium-run sale of the property. The independent appraiser considers the liquidation value to be 80% of the current market price value.

The Company has entered into leasehold agreements on its investment properties and retains all significant risks and rewards of ownership of these properties.

**Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, current accounts with banks and short-term deposits with banks with ordinary maturity up to three months.

**Financial instruments**

All financial assets and liabilities are initially measured at fair value, which is usually the value of the consideration given (in respect of a financial asset) or received (in respect of a financial liability). Financial assets include financial assets held for trading and available for sale. Financial assets held for trading and available for sale are subsequently valued at fair values where changes in fair values are recognized as income or loss in the income statement ( in case of assets held for trading) or recorded in equity ( in case of available for sale financial assets). Loans and receivables and held to maturity financial assets, which are subsequently valued at amortized cost using the effective interest rate method.

Debt and equity instruments are classified in accordance with the contract as financial liabilities or equity, respectively. An equity instrument is any contract that provides residual value in the assets of the entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of any issue costs. Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit and loss. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

As of the balance sheet date financial assets are reviewed for any indication for impairment or revaluation. If such indications exist, the asset's recoverable value is determined.

Transactions, denominated in foreign currency, are reported in BGN, at the exchange rate of the Bulgarian National Bank (BNB) as of the date of the respective transaction. Assets and liabilities, denominated in foreign currency, are reported as of the date of balance sheet preparation, at the closing exchange rate of BNB.

Foreign exchange rate gains and losses are reported in the Income statement in the period in which they arise.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**3. Summary of significant accounting policies (continued)**

Since January 1, 1999 the Bulgarian Lev is fixed to the Euro at a rate of EUR 1 = BGN 1.95583. The fluctuations of all other foreign currencies against the BGN reflect their exchange rate movements against the Euro on the foreign markets.

The Company does not perform significant transactions denominated in currencies other than BGN and EUR, and accordingly, is not exposed to currency risk.

**Current receivables and liabilities**

Current receivables are measured at their expected realizable value

Current liabilities are valued at the amount, at which they are expected to be settled in the future.

**Rental income**

Rental income from investment properties is recognized in the income statement on direct method basis over the lease term, as provided under the terms of the operating lease agreements.

**Interest income**

Interest income on deposits is recognized in the income statement on a time proportion basis, according the deposit agreement.

Interest earned whilst holding trading securities is reported as interest income.

**Income tax**

In accordance with the Corporate Income Tax Act, effective as of December 31, 2007, the special investment purpose companies, licensed under SIPCA, are not subject to corporate income taxation.

Thus, the Company does not recognize current and deferred income taxes in these financial statements.

**4. Investment properties**

	КЪМ 31.12.2007	КЪМ 31.12.2006
At fair value	<u>31.12.2007</u>	<u>31.12.2006</u>
Balance at beginning of year	36,492	3,720
Acquisitions during the year	31,089	24,275
Other acquisitions, through swaps	684	186
Disposals due to swaps	(419)	(87)
Disposals due to sales	(7)	-
Net loss gain due to fair value adjustments	24,090	3,720
Total	<u>91,929</u>	<u>36,492</u>

As of December 31, 2007, the investment properties comprise of agricultural land of approximately 216,514 decares at the amount of BGN 69,271 thousand, approximately 121 decares of real estate property in process of local government regulation and development at the amount of BGN 19,159 thousand and 11 decares of already regualted property at the amount of BGN 3,499 thousand. The total value of the investment property amount to BGN 91,929 thousand, including fair value revaluation of BGN 33,282 thousand.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**4. Investment properties (continued)**

As of December 31, 2006, investment properties comprise agricultural land of approximately 123,500 decares at the amount of BGN 30,027 thousand, approximately 10 decares of real estate property in process of local government regulation and development at the amount of BGN 3,133 thousand, and approximately 11 decares of already regulated property at the amount of BGN 3,332 thousand or total value of BGN 36,492 thousand, including fair value revaluation of BGN 9,192 thousand.

As of December 31, 2007, the total value of the investment properties of BGN 91,929 thousand includes revaluation increase made in 2007 for BGN 24,090 thousand and BGN 8,398 thousand in 2006, respectively. These revaluation increases are based on appraisal reports dated March 10, 2008 for year 2007 and February 22, 2007 for 2006 respectively, prepared and submitted by an independent appraiser, which was hired by the Company to perform the annual revaluation of the investment properties as required under Article 20, Items 1 and 2 of the SIPCA.

In 2007 the Company has realized six swaps of investment properties, three of which are with Municipal land fund and the other three are with legal entities, with the following parameters:

Region	Swapped land, decares	Value of swapped land, BGN '000	Acquired land from swaps, decares	Value of Acquired land from swaps, BGN '000
Simeonovgrad Municipality	87	15	87	17
Topolovgrad Municipality	1,054	228	892	295
Galabovo Municipality	264	49	205	80
Nova Zagora Municipality	333	85	332	244
Simeonovgrad Municipality	136	30	137	34
Simeonovgrad Municipality	59	12	59	14
<b>Total</b>	<b>1,933</b>	<b>419</b>	<b>1,712</b>	<b>684</b>

Three deals for sale of investment properties with carrying amount of BGN 7 thousand have been contracted, the realized revenues are at the amount of BGN 8 thousand with positive financial gain of BGN 1 thousand.

The Company concluded leasehold agreements for approximately 69,469 decares of agricultural land in 2007 and 33,800 decares for 2006, respectively. The related rental incomes for 2007 in the amount to BGN 886 thousand and BGN 97 thousand for 2006 respectively are presented in the Income statement.

As of December 31, 2007 the fair value of the Company's properties, subject to lawsuits for ownership rights, amount to BGN 134 thousand.

**5. Rent and other receivables**

	As of 31.12.2007	As of 31.12.2006
Advances to suppliers, brokers and contractors	534	497
Receivables from lessees and suppliers	532	94
Other	26	1
<b>Total</b>	<b>1,092</b>	<b>592</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**6. Cash and cash equivalents**

	As of 31.12.2007	As of 31.12.2006
Cash held for subscription of new shares	-	6,219
Cash in hand	81	719
Cash at a current account, in BGN	433	292
Total	<u>514</u>	<u>7,230</u>

The “cash held for subscription of new shares” as of December 31, 2006 represents funds received from shareholders who have declared their intention to exercise their rights to purchase new shares in the fourth published offering Company’s shares.

**7. Bank loans.**

As of December 31, 2007 and 2006, the short-term loans comprise of:

	Interest	As of 31.12.2007	As of 31.12.2006
Loan extended by Commercial Bank Alianz Bulgaria AD	BIR of BNB+ 3.56%	-	5,000
Loan extended by ING Bank	SOFIBOR +2.75%.	<u>8,000</u>	-
TOTAL SHORT-TERM LOANS		<u>8,000</u>	<u>5,000</u>

On August 3, 2007 the Company concluded a loan agreement with ING Bank - branch Sofia, with interest rate SOFIBOR plus 2.75%. The credit loan was utilized in three disbursements in the period from September 28, 2007 till November 9, 2007. The interest is paid on a monthly basis while the repayment of the principal will be done with lump-sum payment not later than June 30, 2008. The loan is secured by a contract for affiance of receivables from rent and lease in the minimum amount of BGN 720 thousand, and as well as by registered mortgage on bigger part of the owned properties in urban and suburban territories with fair value of BGN 9,422 thousand. The interest expenses related to the loan agreement amount to BGN 151 thousand and are recognized in the Income statement. As of December 31, 2007, the unpaid interest amounts to BGN 22 thousand (see note 8).

The bank loan extended by Commercial Bank Alianz Bulgaria has been fully repaid in 2007.

**8. Current liabilities**

	КЪМ 31.12.2007	КЪМ 31.12.2006
Payables to suppliers	731	349
Advances received	1,750	-
Other tax payables	1	3
Payables to banks	22	-
Payables to personnel	-	2
Payables to social security funds	2	1
Payables to the service company (Note 12)	450	668
Total	<u>2,956</u>	<u>1,023</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**8. Current liabilities (continued)**

On July 20, 2007 the Company contracted an agreement in respect of its own regulated land in Stara Zagora, and will constitute to the commercial company "Project Estate – EOOD" the development rights to build a commercial center. An advance in the amount of BGN 1,750 thousand has been received under this contract. The rest of the agreed amount for the development rights will be paid on the day of contracting the notary agreement.

**9. Share capital**

	Number of shares	Par value of shares	Share capital, BGN '000.
As of 01.01.2006	11,050	1	11,050
Shares issued in 2006	11,037	1	11,037
As of 31.12.2006	22,087	1	22,087
Shares issued in 2007	21,969	1	21,969
As of 31.12.2007	44,056	1	44,056

**10. Hired services**

	Годината, приключваща на 31.12.2007	Годината, приключваща на 31.12.2006
Consulting fees	1,825	1,082
Commissions	166	10
Expenses for insurance of receivables	8	-
Registration of share capital issues with the Central depository	7	15
Annual fees	10	3
Advertising	12	29
Local taxes and fees	79	95
Professional services	57	13
Other expenses and fees	7	-
Total	2,171	1,247

The consulting fees for the year ended December 31, 2007 and 2006, respectively, are as follows:

	Year ended 31.12.2007	Year ended 31.12.2006
Remuneration for the service company	1,342	1,038
Remuneration for the investment intermediary	413	3
Audit services	52	38
Appraisal services	18	3
Total	1,825	1,082

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**11. Finance costs**

	Year ended 31.12.2007	Year ended 31.12.2006
Transaction costs and mortgage fees on the bank loan	55	41
Interest expense on bank loan	176	65
Other finance costs	2	3
Total	<u>233</u>	<u>109</u>

**12. Service agreement**

The Company has a service agreement with Karoll Finance EOOD, which owns 13.16% of the Company's total share capital. Under the agreement, Karoll Finance EOOD provides consulting, administrative and recruitment services to the Company and in return, the Company pays to Karoll annual service fee. The total fee for 2007 according to the service agreement amounted to BGN 1,342 thousand and BGN 1,038 thousand for 2006, respectively.

**13. Remuneration of the company's board of directors and key management personnel**

During 2007 the Company paid salaries and other short term remuneration benefits to its directors and key management personnel in the amount of BGN 53 thousand and BGN 25 thousand in 2006, respectively.

The Company has not established any defined pension plan and does not have share-based payments to its employees.

**14. Income per share**

	Year ended 31.12.2007	Year ended 31.12.2006
Net profit (BGN '000.)	23,044	7,348
Weighted average number of shares, on a day basis	42,671,689	18,548,928
Income per share (BGN)	0.54	0.40

The weighted average number of shares is estimated as a sum of the number of ordinary shares in turnover at the beginning of the period and the number of ordinary shares in turnover emitted during the period as each share number is initially multiplied by the average time factor.

**15. Financial risk management***Credit risk*

The Company's credit management policies aim to attract clients with suitable credit reputation, appropriate credit history and financial abilities for managing investment properties. The Company is not exposed to significant credit risks. Receivable balances are being monitored on a regular basis to ensure timely execution of necessary actions for their collection.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**15 Financial risk management (continued)***Liquidity risk*

The Company monitors its cash flow position, and its debt maturity and overall liquidity position to assess its exposure to liquidity risk. The Company maintains sufficient level of cash and cash equivalents to finance its operations and to mitigate the effects of fluctuation in cash flows. The Company ensures the necessary funding through various credit facilities with financial institutions, using its investment properties as collaterals for loan agreements if needed, and raising capital through public offering of its shares.

As of December 31, 2007	<u>Up to 1 month</u>	<u>1-3 months</u>	<u>3 months-1 year</u>
Cash and cash equivalents	514	-	-
Advances to suppliers, brokers and contractors	-	534	26
Receivables from rents and suppliers	-	281	251
Total financial assets	<u>514</u>	<u>815</u>	<u>277</u>
As of December 31, 2007	<u>Up to 1 month</u>	<u>1-3 months</u>	<u>3 months-1 year</u>
Payables to financial institutions, incl. banks	22	-	8,000
Advances received	-	1,750	-
Payables to suppliers and brokers	-	731	-
Payables to related parties	-	450	-
Payables to social security funds	2	-	-
Other tax payables	1	-	-
Total financial liabilities	<u>25</u>	<u>2,931</u>	<u>8,000</u>

*Interest rate risk*

The value of the Company's assets depends on the dynamics of the market interest rates. The Company's activity is exposed to risk of interest rates fluctuations, as the value of interest-bearing fixed rate assets changes as a result of market interest rates fluctuations. With respect to floating interest rate assets the Company is exposed to risk, resulting from changes in the interest rate index, to which the respective financial instrument is linked.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**15 Financial risk management (continued)**

As of December 31, 2007	Up to 1 month.	1-3 months	3 month.- 1 year	1-5 years	Non-interest bearing	Total
<b>Assets</b>						
Receivables from brokers	-	-	-	-	534	534
Other receivables and advances	-	-	-	-	558	558
Cash in hand	-	-	-	-	81	81
Cash at banks	433	-	-	-	-	433
<b>Total assets</b>	<b>433</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,173</b>	<b>1,606</b>

*Interest risk (continued)*

Liabilities	Up to 1 month.	1-3 months	3 month.- 1 year	1-5 years	Non-interest bearing	Total
Payables to financial institutions, incl. banks	22	-	8,000	-	-	8,022
Payables to brokers	-	-	-	-	676	676
Payables to suppliers	-	-	-	-	55	55
Payables to related parties	-	-	-	-	450	450
Advances received	-	-	-	-	1,750	1,750
Payables to the State budget	-	-	-	-	3	3
<b>Total liabilities</b>	<b>22</b>	<b>-</b>	<b>8,000</b>	<b>-</b>	<b>2,934</b>	<b>10,956</b>

**As of December 31, 2006**

Assets	Up to 1 month	1-3 months	3 months- 1 year	1-5 years	Non-interest bearing	Total
Receivables from brokers	-	-	-	-	497	497
Other receivables and advances	-	-	-	-	95	95
Cash in hand	-	-	-	-	719	719
Cash at banks	6,511	-	-	-	-	6,511
<b>Total assets</b>	<b>6,511</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,311</b>	<b>7,822</b>
Liabilities	Up to 1 month	1-3 months	3 months- 1 year	1-5 years	Non-interest bearing	Total
Payables to financial institutions, incl. banks	-	5,000	-	-	-	5,000
Payables to brokers	-	-	-	-	298	298
Payables to suppliers	-	-	-	-	38	38
Payables to related parties	-	-	-	-	668	668
Advances received	-	-	-	-	13	13
Payables to personnel	-	-	-	-	2	2
Payables to the state budget	-	-	-	-	3	3
Payables to emissions	-	-	-	-	6,219	6,219
<b>Total liabilities</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>-</b>	<b>7,241</b>	<b>12,241</b>

*Foreign currency risk*

The Company is exposed to foreign currency risk when dealing with financial instruments, denominated in foreign currency. Foreign currency transactions result in exchange rate gains and losses. As of December 31, 2007, the financial asset investments are denominated in local currency and EUR. Since the Currency board implementation in the country, the exchange rate of the Bulgarian lev is fixed to the Euro and there is no foreign currency risk exposure.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**15 Financial risk management (continued)***Market risk*

The market risk is a systematic risk, which can affect the value of all assets. It is generated from the characteristics of the macroeconomic environment and the condition of the capital market in the country. It cannot be controlled by the Company and generally cannot be diversified. Basic method for reduction of the systematic risk and its components is to collect and process information for the macroeconomic environment, and to forecast and adjust the investment policy based on the information for the expected changes in the environment .

	December 31, 2007		December 31, 2006	
	Fair value	% net assets, estimated by market value	Fair value	% net assets, estimated by market value
Agricultural land	69,271	75.35	30,027	82.28
Properties in urbanized territories	19,159	20.84	3,133	8.59
Properties in regulation	3,499	3.81	3,332	9.13
<b>Total</b>	<b>91,929</b>	<b>100.00</b>	<b>36,492</b>	<b>100.00</b>

*Capital risk*

The Company manages its equity to achieve maximum return for the shareholders by optimizing the capital structure. The Company's strategy remains the same as in 2006. The capital structure consists of debt which includes bank loan (see note 7), cash and cash equivalents and equity (see note 6 and note 9, respectively).

*Gearing ratio at the end of the year:*

The Company uses debt financing after investing the accumulated share capital. The Company's policy is to conclude short-term bridge loans until the next capital increase.

The gearing ratio for the year is as follows:

	Year ended 31.12.2007	Year ended 31.12.2006
<b>Debt</b>	10,956	12,240
Cash in hand and cash equivalents	(514)	(7,230)
Net debt	10,442	5,010
<b>Equity</b>	82,579	32,074
Net debt/Equity ratio	13%	16%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2007

All amounts are in thousand Bulgarian Levs, except otherwise stated

**16. Potential liabilities**

According to information provided by the lawyers' team, the Company is brought into lawsuits concerning entirely or partially the ownership rights of agricultural land with fair value less than 0.15% of the total value of the investment properties as of December 31, 2007. The lawsuits represent claims for ownership or part of the property rights, and are not related to cash compensations. All lawsuits are pending at first court hearing.

Due to the initial stage and the nature of the lawsuits, as well the lack of particular cash claims from the claimants we are not in a position to calculate an approximate estimate for the contingent negative cash flows and losses which can negatively affect the financial results if the court decisions are not in Company's favour.

**17. Post balance sheet events**

Subsequent to the balance sheet date the tendency for world financial markets' crisis which started at the end of 2007 as a result of liquidity and credit problems in the bank system of USA has increased. This crisis affected the Bulgarian capital market on which the Company operates. Since the beginning of 2008 to the middle of March 2008, the main index of Bulgarian Stock Exchange (BSE) – SOFIX decreased with approximately 30%. The Company's shares, traded on the BSE, decreased insignificantly – only 4% since the beginning of the year and the current share price quotations are at levels 37% higher compared to the same period in the previous year. The Company mainly invests in fertile agricultural lands and regulated properties in urbanized territories, as the markets trends in 2008 are the properties prices indexes to remain stable and expects an increase compared to previous years. The management expects in 2008 to rent out more than 130 thousand decares of agricultural land and to increase significantly its revenues from rental activities. The renting campaign continues until the end of May which is the deadline for the farmers for submission of applications for subsidies in line with direct payments for arable land.