

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

**AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

31 December 2005



Deloitte Audit Ltd.
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**company file 10638/96
at the Sofia City Court
bank account ING BANK Code 14591458
account in BGN: 1000270610**

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF "ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

We audited the balance sheet of **ELANA Agricultural Land Opportunity Fund REIT** (the Company) as at 31 December 2005, as well as the corresponding income statement, cash flow statement and equity statement for the 7 April 2005 (the date on which the Company was registered) - 31 December 2005. The responsibility for the preparation of the financial statement lies with the management of the Company. Our responsibility is to express an audit opinion based on the audit conducted by us.

Our audit was conducted in compliance with the International Auditing Standards. These standards stipulate that the audit shall be planned and performed in such a way that we can obtain reasonable assurance that the financial statement does not contain material errors. The audit includes examination on a test basis of the evidence of amounts and disclosures presented in the financial statement. The audit also covers an assessment of the accounting principles applied and the material estimates made by the management, as well as the overall presentation of the financial statement. We believe that the audit conducted by us gives sufficiently reasonable grounds for expressing an audit opinion.

As a result of this we certify that the financial statement gives a true and fair view, in all material aspects, of the financial situation of the Company as at 31 December 2005, as well as of the results from its operations, the changes in its equity and its cash flows during the period 7 April 2005 - 31 December 2005, in compliance with the Accounting Standards applicable in Bulgaria, adopted with CoMD No. 21 / 4 February 2003 and promulgated in the State Gazette, No. 13 of 2003, which are the main International Accounting Standards, 2002 revision.

Deloitte Audit
Deloitte Audit Ltd.

Silvia Peneva, Manager, (signed)
Certified Auditor

19 May 2006
Sofia

An ellipsoid stamp of Specialised Auditing Company "Deloitte Audit", Sofia, Reg. No. 033 is affixed next to the signature

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

BALANCE SHEET as at 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

	Note	As at 31.12.2005
Assets		
Fixed assets	4	11
Investment properties	5	4,149
Financial assets held for sale	6	2,001
Trade and other receivables	7	296
Cash and cash equivalents	8	17,470
Total assets		<u>23,927</u>
Liabilities		
Current payables	9	103
Total liabilities		<u>103</u>
NET ASSETS		<u><u>23,824</u></u>
Equity		
Fixed capital	10	19,932
Premiums from issues		3,507
Profit for the current period		385
TOTAL EQUITY		<u><u>23,824</u></u>

The financial statement was approved by the Board of Directors and signed on behalf of "ELANA Agricultural Land Opportunity Fund" REIT by:

Georgi Lichev

Executive Director

Signature: illegible

A round stamp of "ELANA Agricultural Land Opportunity Fund" REIT is affixed on the signature

19 May 2006

The notes enclosed are an integral part of this financial statement.

Auditor:

19/05/06

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"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

INCOME STATEMENT

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

	Note	Period from 7 April 2005 till 31 December 2005
Interest income		38
Income from revaluation of investment properties, net	5	847
Operating income		885
Costs on transactions involving financial assets held for sale, net		(9)
Costs on materials		(17)
Hired services	11	(411)
Depreciation costs		(2)
Personnel costs		(34)
Other costs, net		(27)
Operating costs		(500)
Profit before tax		385
Tax		-
Net profit		385

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"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

CASH FLOW STATEMENT

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

	Period from 7 April 2005 till 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	(441)
(Payments) related to financial assets held for sale	(2,010)
Personnel costs	(24)
Other (payments) related to operating activities	(260)
Net cash flow from operating activities	<u>(2,735)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Purchase of fixed assets	(11)
Purchase of investment properties	(3,222)
Net cash flow on investment activities	<u>(3,233)</u>
CASH FLOWS FROM FINANCIAL ACTIVITIES	
Income from issue of own shares	23,440
Other cash flow from financial activities	(2)
Net cash flow from financial activities	<u>23,438</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>17,470</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>17,470</u></u>

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"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

STATEMENT OF CHANGES IN EQUITY

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

	Fixed capital	Premiums from issues	Accumulated profit / loss	Total
BALANCE AS AT 7 APRIL 2005	-	-	-	-
Capital subscribed and paid in at the time of incorporation	500	-	-	500
Subsequent increase in capital	19,432	3,507	-	22,939
Net profit for the period	-	-	385	385
BALANCE AS AT 31 DECEMBER 2005	19,932	3,507	385	23,824

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"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

1. GENERAL INFORMATION

1.1. "ELANA Agricultural Land Opportunity Fund" REIT

"ELANA Agricultural Land Opportunity Fund" REIT (the Company) is a public joint-stock company established in 2005 at a Constituent Assembly held on 14 March 2005, with a capital of BGN 500,000, allocated in 500,000 shares with par value BGN 1 each. The Company was registered by the Sofia City Court in 7 April 2005 and was entered in the Commercial Register of the Sofia City Court under Company file No. 3781/2005, account number 92550, volume 1208, Reg. I, page 116. The seat and management address of the Company is at Sofia, 4, Kuzman Shapkarev Street.

The subject of activity of the Company is investment of financial resources, raised through the issuing of securities, in real estate (securitisation of real estate) through the purchase of ownership and other real rights over real estates and carrying out development and improvements in them, for the purpose of providing them for management, letting out, leasing, renting out and/or sale.

The special legislation regulating the activities of the Company is contained in and stems mainly from the Special Investment Purpose Companies Act (SIPC Act) and the Public Offering of Securities Act (POS Act). On the grounds of these the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained a licence No. 370 for its operations, issued by the virtue of a decision of the FSC dated 1 June 2005.

The Company was established for a period of 7 years.

The Company has a single-level management system. The Board of Directors (BD) of the Company comprises: Georgi Petrov Lichev, Chairman of the BD and Executive Director, Georgi Valentinov Malinov, Deputy Chairman of the BD, and Petar Stoyanov Bozhkov, Member of the BD.

In 2005 2 subsequent increases of the capital of the Company were carried out and as at 31 December 2005 it amounted to BGN 19,931,843.

1.2. Investment Strategy, Goals and Limitations of the Fund

"ELANA Agricultural Land Opportunity Fund" REIT is a special investment purpose company for securitisation of real estate. The Company can acquire real rights only over agricultural properties situated in the territory of the Republic of Bulgaria. According to the Articles of Incorporation of the Company, the main goal of the Company is orientated towards the increase in the market value of the Company shares and increasing the amount of dividends paid to shareholders, while maintaining and increasing the value of the equity. The objectives of the Company are as follows:

- To provide the shareholders with a stably increasing current income in the form of dividends through renting out the land owned;
- To maximise the value of the shareholders' investments through a continued active management of the Company's assets and the acquisition/sale of agricultural properties;
- To diversify the portfolio of agricultural properties by investing in different types of agricultural properties (arable land, land with perennial plants, vineyards, etc.) situated in different regions of the Republic of Bulgaria, in order to reduce the non-systematic risk of the investment portfolio;

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

- To ensure liquidity for the Fund's shareholders by listing the shares of "ELANA Agricultural Land Opportunity Fund" REIT for trade at the Bulgarian Stock Exchange - Sofia.

The Company follows a passive (buy-and-hold) investment strategy. The accumulated assets in the form of agricultural land will be mainly held for the term of the Company's existence. It is possible that some of them will be sold in order to purchase land at advantageous prices or exchanged in order to make other existing properties larger.

The investment policy of the Company envisages that it will invest temporarily its idle funds in all manners permitted by law, which currently include:

- securities issued or guaranteed by the Bulgarian government and bank deposits - without limitations;
- mortgage bonds, issued in accordance with the procedures and under the terms of the Mortgage Bonds Act - up to 10% of the Fund's assets.

The Articles of Association of the Company permits that the Fund also invests up to 10% of its capital in one or more servicing companies.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statement was prepared for the year ending on 31 December 2005. The amounts in the financial statement are presented in thousands of Bulgarian Levs (BGN '000).

The financial statement was prepared in compliance with the accounting standards applied in Bulgaria, adopted with Council of Ministers' (CoM) Decree No. 21 / 4 February 2003 and promulgated in the State Gazette (SG), No. 13 of 2003, which are the main International Accounting Standards (IAS), 2002 revision. The Bulgarian Accountancy Act requires that for 2005 the International Financial Reporting Standards (IFRS) adopted by the European Commission, which should have an official translation into the Bulgarian language, be adopted by the CoM and promulgated in the SG, be applied. As at the date of the statements the only official publication in the Bulgarian language, adopted with CoM Decree No. 21 / 4 February 2003 and promulgated in SG, No. 13 of 2003 is the publication of the main IAS from 2002. Because of this the management is of the opinion that their applying for year 2005 is the only practicable solution and that the financial statements thus prepared provide the user with useful and reliable information on the financial situation and the results from the operations of the Company. That is why the management has chosen this basis for the preparation of these financial statements.

In the opinion of the management the basis chosen for the preparation of the financial statement for 2005 provides the users with useful and reliable information on the financial situation and the results from the operations of the Company.

The preparation of the financial statements requires that the management makes estimates and assumptions influencing the book value of assets and liabilities as at the balance sheet date and the amount of income and expenditure during the reporting period, as well as the disclosure of contingent assets and liabilities. Although 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 the financial statement, the actual future results may differ from the estimates.

The financial statement is prepared in compliance with the historic cost principle, except for the financial assets held for sale and the investment properties, which are restated at their fair value.

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

3. MAIN COMPONENTS OF THE ACCOUNTING POLICY

Fixed assets

Fixed assets are initially stated at cost, including the acquisition price plus all direct costs related to the acquisition of the assets.

Subsequent valuations are carried out on the basis of the recommended approach, i.e. cost minus depreciation and impairment loss. The impairments made are reported as costs and are recognised in the income and expenditure statement for the corresponding period.

The accrual of depreciation starts from the month following the month in which the assets were acquired or commissioned. The depreciation of fixed assets is calculated on the basis of the straight-line method, so that their wearing out corresponds to their envisaged useful life.

In 2005 the Company applied the following depreciation rates:

Computers and computer equipment	50%	2 years
Plant and equipment	30%	3.33 years
Transport vehicles	25%	4 years
Farm inventories	15%	6.66 years

Subsequent costs related to an individual fixed asset are added to the book value of the asset when it is likely that the company will have economic benefits higher than the initially estimated efficiency of the existing asset. All other subsequent costs are recognised as expenditure during the period in which they have been incurred.

The minimum admissible materiality threshold for fixed assets is BGN 500.

Investment properties

The investment properties in which the Company invests are lands which are held as a source of income and for the purpose of long-term increase in the capital.

Investment properties are initially stated at cost, including the acquisition price plus all direct costs related to the acquisition of the properties. Subsequent costs related to an investment property, which has already been recognised, are added to the book value of the investment property when it is likely that the company will have economic benefits higher than the initially estimated performance of the existing investment property. All other subsequent costs are recognised as expenditure during the period of their origination.

Properties are revalued using the fair value model.

As at the end of each financial year investment properties are valued by a licensed valuer pursuant to Article 20, paragraphs 1 and 2 of the SIPC Act. In the course of the valuation of the investment properties of the Company as at 31 December 2005 the valuation team used the "Fair Market Value" model. Fair market value (FMV) is the most likely price at which an asset would sell on the open market following all conditions for proper sale, namely: the buyer and seller act willingly, having reasonable knowledge of all facts related to the corresponding asset; both parties are directed by their own interest; none of the parties acts under any pressure, with a reasonably long period of realisation.

The following methods are used for valuation of agricultural land:

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

3. MAIN COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

- income capitalisation or discounting method;
- comparison method (market analogue).

Direct income capitalisation - the method is based on the direct relation between the land value and the income. It is used for agricultural land generating permanent income - entrepreneurship and rental, where an average representative annual income can be determined. Agricultural land generates for its owner an annual income, annuity. The present value of the annuity is equal to the ratio between the annual income it generates and the capitalisation rate.

The capital value of the property is formed in the following two ways. On the one hand, as a ratio between the net income and the capitalisation rate. On the other hand, as a ratio between the rental income (part of the net income) and the corresponding capitalisation rate. The capitalisation rate of the net income is determined at an expert level as the difference between the rate of return on the investment in the land (for the entrepreneur) and the average annual increase in the estimated annual income. The capitalisation rate of the rental income is equal to the capitalisation rate of the land in the case of natural reproduction. The values obtained, weighted with the help of weight coefficients, form the value of the agricultural land using the Direct income capitalisation method.

Market comparables (analogues) - the method is based on the theory of the analogue (comparison). The starting points of the method are the market prices of analogues achieved as a result of successful transactions. The larger the number of the evidence of successfully closed transactions in the valuers' files, the higher the accuracy of the method. This method is used successfully, because it allows the most easily justifiable valuation in the presence of accessible information.

No depreciation is charged on investment properties. At each date of preparation of financial statements of the Company, the difference between the book value and the fair value is stated in the Income and Expenditure Statement.

Financial instruments

Financial instruments include financial assets held for sale, cash and cash equivalents. Initially financial assets held for sale are stated at cost, which is the fair value of the amount paid (in the event of assets) or received (in the event of liabilities). Transaction costs are included in the initial assessment. Financial assets held for sale are recognised on the settlement date, namely the date when the asset has been transferred to or by the company.

Financial assets held for sale are subsequently valued at fair value and the changes are reflected in the income statement for the period as income from / expenditure on transactions involving financial assets held for sale.

As at the date of the balance sheet a review of financial assets is made for indications of impairment and revaluation. In the event that there are such indications, the recoverable value of the asset is determined.

Cash is measured at its nominal value.

Transactions in foreign currencies

Transactions denominated in foreign currencies are reported in BGN, based on the exchange rate of the Bulgarian National Bank (BNB) on the dates of the corresponding transactions. Assets and liabilities denominated in foreign currencies are reported as at the balance sheet date using the closing exchange rate of BNB.

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

3. MAIN COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

Profit and loss resulting from exchange rate fluctuations and trade in foreign currency are reported in the income statement during the period of their origination.

Effective 1 January 1999 the Bulgarian lev was pegged to the currency of the European Union at an exchange rate of EUR 1 for BGN 1.95583. The changes of all other foreign currencies in relation to the Bulgarian lev reflect the change of the same currencies in relation to the Euro in the international markets.

The Company does not close significant transactions in currencies other than BGN and EUR and is not exposed to currency risk.

Short-term Receivables and Payables

Short-term receivables are measured at their estimated realisation value.

Current liabilities are measured at the cost of their origination in accordance with which they are expected to be repaid in the future.

Interest Income

Interest income from debt securities are recognised on a current basis in the income and expenditure statement, proportionately to the time-basis, using the effective income from the asset method.

Interest realised from holding securities for sale is reported as interest income.

Employee Benefits

The Company has not developed or applied employee benefit plans after leaving or other long-term income or income plans on leaving or plans in the form of compensation with shares or stakes in the equity.

The Company reports short-term payables for annual leave subject to compensation as a result of unused annual paid leave for prior periods. The short-term payables to employees include salaries, fees and social security payments. As at 31 December 2005 the Company has reported short-term payables for annual leave subject to compensation as a result of unused annual paid leave.

Profit tax

The current taxes due are calculated in accordance with the Bulgarian legislation. Pursuant to the Corporate Income Taxation Act effective as at 31 December 2005, special purpose investment companies, licensed for operations under the SIPC Act, shall not be subject to corporation profit tax.

As a result of this the Company does not owe and has not charged current and deferred profit taxes in this statement.

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

4. FIXED ASSETS

	Office equipment	Business inventory	Total
Reporting value			
7 April 2005	-	-	-
Additions	9	4	13
Disposals	-	-	-
31 December 2005	9	4	13
Accumulated depreciation			
7 April 2005	-	-	-
Depreciation for the year	2	-	2
Depreciation of disposals	-	-	-
31 December 2005	2	-	2
Net book value as at			
7 April 2005	-	-	-
31 December 2005	7	4	11

5. INVESTMENT PROPERTIES

As at 31 December 2005 the investment properties include agricultural land with an area of approximately 20,700 decares with a value of BGN 4,149 thousand, including BGN 847 thousand revaluations at fair value.

6. FINANCIAL ASSETS HELD FOR SALE

Structural breakdown of securities in the total value of the securities held:

Types of securities	as at 31.12.2005
Corporate mortgage bonds	2,001
TOTAL VALUE OF SECURITIES	2,001

The corporate mortgage bonds are bonds secured with a mortgage of real estate, issued by Investbank AD, denominated in BGN, with a maturity in December 2008 and fixed interest coupon of 5.55% per annum, payable at half-annual periods. The financial assets held for sale comprise 8.36% of the total assets of the Company as at 31 December 2005.

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

7. TRADE AND OTHER RECEIVABLES

	as at 31.12.2005
Receivables from clients and suppliers	258
Advance payments made	2
Other interest receivables	36
Total	<u>296</u>

8. CASH AND CASH EQUIVALENTS

	as at 31.12.2005
Cash in hand and in current accounts in BGN	481
Deposits in BGN	16,989
Total	<u>17,470</u>

9. CURRENT PAYABLES

	as at 31.12.2005
Payables to suppliers and clients	80
Other payables	2
Payables to staff	8
Payables to social security companies	1
Other short-term payables	12
Total	<u>103</u>

10. FIXED CAPITAL

Changes in capital	Number of shares	Par value, BGN	Fixed capital, BGN '000
as at 31.12.2005	-	-	-
New issues of shares	19,932	1	19,932
as at 31.12.2005	<u>19,932</u>	<u>1</u>	<u>19,932</u>

"ELANA AGRICULTURAL LAND OPPORTUNITY FUND" REIT

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

For the period 7 April 2005 - 31 December 2005

All amounts are in thousands of Bulgarian Levs, unless specified otherwise

11. HIRED SERVICES

	Period from 7 April 2005 till 31 December 2005
Consultancy serviced related to the issuing of shares	162
Consultancy services provided by ELANA Investment, a servicing company of the Company	57
Other consultancy services	41
Commissions under intermediation agreements with ELANA Trading, investment intermediary of the Company	100
Rents	10
Advertising	17
Other hired services	24
Total	<u>411</u>

12. RELATED PARTIES

The related parties of the Company are ELANA Holding AD and the companies in the ELANA Holding Group. The nature of the relation stems from the participation of ELANA Holding as a founding party of the Company, and also there is a participation of natural persons with significant influence on the determining of the financial and operating activities of the Company and the management of the companies in the ELANA Holding Group. As at 31 December 2005 there are no receivables from or payables to related parties and the transactions during the period are as follows:

	Period from 7 April 2005 till 31 December 2005
Expenditure on consultancy services provided by ELANA Investment, a servicing company of the Company	57
Expenditure in commissions under intermediation agreements with ELANA Trading, investment intermediary of the Company	100

13. EVENTS AFTER THE BALANCE SHEET DATE

On 18 May 2006 the third increase in the capital started through the issuing of 39,863,686 new shares, each with a par value of BGN 1 and issue value of BGN 1.25. Only the individuals and companies having the right to subscribe new shares will be able to subscribe shares from the capital increase. One right provides an opportunity for subscribing 2 new shares at the price of BGN 1.25 per share. The deadline for subscribing new shares is 29 June 2006.