

**ELANA AGRICULTURAL LAND  
OPPORTUNITY FUND REIT**

ANNUAL FINANCIAL STATEMENTS

December 31<sup>st</sup>, 2007

ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT

BALANCE SHEET

As of December 31<sup>st</sup>, 2007

Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

|                                   | Notes | As of<br>31.12.2007 | As of<br>31.12.2006 |
|-----------------------------------|-------|---------------------|---------------------|
| <b>ASSETS</b>                     |       |                     |                     |
| Investment properties             | 4     | 141,132             | 57,201              |
| Property, plant and equipment     | 6     | 46                  | 52                  |
| Accounts receivable               | 7     | 982                 | 1,647               |
| Financial assets held for trading | 8     | -                   | 7,036               |
| Cash and equivalents              | 9     | 10,600              | 18,348              |
| <b>TOTAL ASSETS</b>               |       | <b>152,760</b>      | <b>84,284</b>       |
| <b>LIABILITIES</b>                |       |                     |                     |
| Bonds                             | 12    | 19,558              | -                   |
| Interest on bonds                 | 12    | 561                 | -                   |
| Accounts payable                  | 10    | 2,660               | 1,754               |
| <b>TOTAL LIABILITIES</b>          |       | <b>22,779</b>       | <b>1,754</b>        |
| <b>NET ASSETS</b>                 |       | <b>129,981</b>      | <b>82,530</b>       |
| <b>EQUITY</b>                     |       |                     |                     |
| Share capital                     | 11    | 59,716              | 59,716              |
| Share premiums                    |       | 13,453              | 13,453              |
| Retained earnings                 |       | 9,361               | 385                 |
| Profit for the current period     |       | 47,451              | 8,976               |
| <b>TOTAL EQUITY</b>               |       | <b>129,981</b>      | <b>82,530</b>       |
| Earnings per share                | 15    | 0.80                | 0.22                |

The Financial Statements are approved by the Board of Directors and have been signed in the name of Elana Agricultural Land Opportunity Fund REIT by:

Georgi Lichev  
Executive Director  
30.03.2008

Silvia Peneva  
Certified auditor  
15.05.2008

The applied notes are an indivisible part of these financial statements.

ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT

INCOME STATEMENT

For the year ended on December 31<sup>st</sup>, 2007

Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

|  | Note | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|--|------|-----------------------------|-----------------------------|
| <b>OPERATING INCOME</b>  |      |                             |                             |
| Gain on revaluation of investment properties, net                | 4    | 51,144                      | 11,245                      |
| Rental income from investment properties                         | 4    | 627                         | 19                          |
| Income from sale and trading of investment properties            | 4    | 971                         | -                           |
| Interest income  | 5    | 704                         | 1,033                       |
| <b>TOTAL OPERATING INCOME</b>                                    |      | <b>53,446</b>               | <b>12,297</b>               |
| <b>OPERATING EXPENSES</b>  |      |                             |                             |
| Hired services   | 13   | (4,590)                     | (2,889)                     |
| Book value of sold investment properties                         | 6    | (600)                       | -                           |
| Interest expenses  | 12   | (563)                       | -                           |
| Losses on operations from financial assets held for trading, net |      | (16)                        | (57)                        |
| Materials expenses   |      | (38)                        | (83)                        |
| Depreciation expenses  | 6    | (30)                        | (11)                        |
| Employee related expenses  |      | (110)                       | (14)                        |
| Other expenses, net  |      | (48)                        | (267)                       |
| <b>TOTAL OPERATING EXPENSES</b>                                  |      | <b>(5,995)</b>              | <b>(3,321)</b>              |
| Profit before taxation   |      | 47,451                      | 8,976                       |
| taxation   |      | -                           | -                           |
| <b>NET PROFIT FOR THE PERIOD</b>                                 |      | <b>47,451</b>               | <b>8,976</b>                |

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ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT

STATEMENT OF CASH FLOWS

For the year ended on December 31<sup>st</sup>, 2007

Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

|  | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|--|-----------------------------|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                             |                             |
| Proceeds from clients                                      | 100                         | -                           |
| Payments to suppliers                                      | (2,133)                     | (425)                       |
| Payments to the servicing company                          | (1,951)                     | (895)                       |
| Cash flow from rental of investment properties             | 420                         | 19                          |
| Payments related to employees                              | (56)                        | (19)                        |
| Interest received  | 14                          | 748                         |
| Other payments for operating activities                    | (38)                        | (1,418)                     |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>             | <b>(3,644)</b>              | <b>(1,095)</b>              |
| <b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>               |                             |                             |
| Purchase of property, plant and equipment                  | (22)                        | (32)                        |
| Purchase of investment properties                          | (31,404)                    | (41,807)                    |
| <b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>            | <b>(31,426)</b>             | <b>(41,839)</b>             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                             |                             |
| Proceeds from issue of equity shares                       | -                           | 49,730                      |
| Proceeds from issue of securities, gross                   | 19,558                      | -                           |
| Cash flows from financial assets held for trading          | 7,057                       | (5,092)                     |
| Other payments for financing activities                    | (61)                        | (826)                       |
| Interest received  | 768                         | -                           |
| <b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>             | <b>27,322</b>               | <b>43,812</b>               |
| <b>NET INCREASE OF CASH AND EQUIVALENTS</b>                | <b>(7,748)</b>              | <b>878</b>                  |
| <b>CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b> | <b>18,348</b>               | <b>17,470</b>               |
| <b>CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>       | <b>10,600</b>               | <b>18,348</b>               |

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ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended on December 31<sup>st</sup>, 2007

Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

|  | Share<br>capital | Share<br>premiums | Retained<br>earnings | Total          |
|--|------------------|-------------------|----------------------|----------------|
| <b>BALANCE AS OF JANUARY 1, 2006</b>       | <b>19,932</b>    | <b>3,507</b>      | <b>385</b>           | <b>23,824</b>  |
| Issue of shares in 2006                    | 39,784           | 9,946             | -                    | 49,730         |
| Net profit for the period                  | -                | -                 | 8,976                | 8,976          |
| <b>BALANCE AS OF DECEMBER 31,<br/>2006</b> | <b>59,716</b>    | <b>13,453</b>     | <b>9,361</b>         | <b>82,530</b>  |
| Net profit for the period                  | -                | -                 | 47,451               | 47,451         |
| <b>BALANCE AS OF DECEMBER 31,<br/>2007</b> | <b>59,716</b>    | <b>13,453</b>     | <b>56,812</b>        | <b>129,981</b> |

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## 1. GENERAL INFORMATION

### 1.1 Incorporation, capital and activities of the Company

Elana Agricultural Land Opportunity Fund REIT (the Company) is a public joint stock company which was established at a Constituent meeting on March 14, 2005. Its registered capital amounts to BGN 500,000, distributed by 500,000 shares with a par value of BGN 1.00 each. The Company was registered at the Sofia City Court on April 7, 2005 and entered in the commercial register of the Sofia City Court under company case No 3781/2005, batch No 92550, volume 1208, reg. I, page 116. Its registered address is seated at 4 Kuzman Shapkarev Street, Sofia.

The Company's scope of activity comprises the investment of funds, raised through the public offering of shares; the acquisition and investment in real estate through the purchase of ownership and other property rights on real estate properties; real estate construction and development with the intended purpose of let for use, rental, leasing, and/or subsequent resale.

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 the supervision of the Financial Supervision Commission (FSC). The Company obtained license No 37 for its activity, issued by a decision of the FSC dated June 1, 2005.

The Company shall be incorporated for a period of 7 years.

The Company has a single-tier management structure. The members of the Company's Board of Directors (BoD) are as follows: Georgi Petrov Lichev, Chairman of the BoD and Executive Director, Georgi Valentinov Malinov, Deputy Chairman of the BoD and Peter Stoyanov Bozhkov, Strahil Nikolov Videnov, Andrey Valerievich Kruglykhin, Members of the BoD.

As of December 31, 2007 the Company has issued equity shares amounting to 59,715,885 BGN

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

#### Core activity

Elana Agricultural Land Opportunity Fund REIT's core activity is the investment of funds, raised through securities issues into agricultural land. The chief activities of the Company comprise the organization of acquisition, renting out, gradual concentration and consolidation of its portfolio of agricultural lands and their subsequent sale during 2011.

#### Main goal

According to the Statute of the Company, the main goal is aimed at increasing the market price of the Company's shares and the distribution of dividends to its shareholders while maintaining or increasing its equity.

NOTES

For the year ended on December 31<sup>st</sup>, 2007

Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

Investment restrictions

Elana Agricultural Land Opportunity Fund REIT acquires only agricultural land and does not securitize other types of real estate.

According to legislation, the Company may not acquire ownership and other property rights over real estate located outside of the territory of the Republic of Bulgaria as well as it may not acquire property rights over real estate which is subject to legal disputes.

According to SIPCA, the Company's temporarily available funds may be invested into:

- Securities issued or guaranteed by the State and bank deposits, without restrictions;
- Mortgage bonds issued under the Mortgage Bonds Act up to 10% of the Company's assets.

According to SIPCA, the Company may invest up to 10% of its capital in one or more servicing companies.

## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These Financial Statements have been prepared in respect to the Bulgarian accounting legislation, which requires public companies to apply the International Financial Reporting Standards (IFRS), adopted by the European Union Commission. In the preparation of these Financial Statements, the Company has adhered to the legislative requirements applied to companies with a special investment purpose.

The following amendments and explanations of the IAS/IFRS have not been applied as they are published but not yet adopted:

- § IAS 1 Amendment – Presenting the capital, valid from January 1, 2009;
- § IFRS 14 и IAS 19 Amendment – Assets with defined benefits (Income); minimal requirements for financing and their interaction, valid from January 1, 2008;
- § IFRS 8 Operational segments, valid from January 1, 2008;
- § IFRS 23 Amendment – Interest on loans expenses, valid from January 1, 2009;
- § IFRS 11, IFRS 2 Transactions for acquisition of group or own bonds, valid from March 1, 2007;
- § IFRS 12 Agreements on concessions, valid from January 1, 2009;
- § IFRS 13 Program for loyal clients, valid for periods after July 1, 2008.

As a whole, the management does not expect considerable influence of the above standards over the Financial Statements of the Company as of December 31, 2007.

These Financial Statements are prepared on a historical cost basis except for financial assets held for trading, investment properties and investments available for sale, which are revaluated at fair value. The remaining financial and material assets and liabilities are reported with depreciated/amortized or historical values.

The Company's management has analyzed and has not identified material differences between the recognition and valuation of assets, liabilities, income and expenses, as well as in their presentation, requiring reclassification of comparative figures for obtaining comparability of the comparative figures to the applicable as of December 31, 2007 standards.

The preparation of financial statements in conformity with the IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of

## NOTES

For the year ended on December 31<sup>st</sup>, 2007

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contingent assets and liabilities as of the balance sheet date, and reported amounts of income and expenses for the reporting period. These estimates are based on the information available as of the date of the financial statements and actual future results may ultimately differ from those estimates.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Property, plant and equipment

Property, plant and equipment are initially carried at cost, including the price of acquisition and any costs directly attributable to the acquisition of assets.

Subsequent valuation is based upon the benchmark treatment, being the original cost less accumulated depreciation and any impairment losses. Impairment losses are recorded as an expense and recognized in the income statement in the period to which they relate.

Depreciation is charged commencing from the month following the month of the asset's acquisition or putting into operation. Depreciation is calculated so as to write down the components of cost of property, plant and equipment to their residual value evenly over their estimated useful lives. Depreciation is applied using the straight-line method and based upon the following estimated useful lives of the assets:

| <b>Category of asset</b>        | <b>Depreciation rate</b> | <b>Estimated useful life</b> |
|---------------------------------|--------------------------|------------------------------|
| Computers and related equipment | 50%                      | 2 years                      |
| Machinery and equipment         | 30%                      | 3.33 years                   |
| Vehicles                        | 25%                      | 4 years                      |
| Fixtures and fittings           | 15%                      | 6.66 years                   |

Subsequent costs related to a separate item of property, plant and equipment, are recognized within the carrying amount of the asset, if it is considered probable that the Company shall gain economic benefits that exceed the initially estimated operating efficiency of the existing asset. All other subsequent costs are recognized as an expense for the period in which they are incurred.

The minimum materiality threshold adopted for the purposes of capitalization of property, plant and equipment is 500 BGN.

#### 3.2 Intangible assets

Intangible assets acquired by the Company, which will probably generate economic benefits exceeding costs beyond one year, are stated at cost less accumulated amortization and any impairment losses, and are classified within "Property, plant and equipment". Amortization is provided on a straight-line basis, calculated to write off the recorded cost of the intangible assets over their estimated useful lives, which is two years for computer software and other intangible assets.

#### 3.3 Investment property

Investment properties in which the Company invests consist of land, which is held for rental income and with the aim to gradually concentrate at a territorial level and subsequently to be sold at higher prices at the termination of the Company.

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For the year ended on December 31<sup>st</sup>, 2007

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Investment property is initially carried at cost, including the price of acquisition and any costs directly attributable to the acquisition of the investment property. Subsequent costs related to investment property already recognized, are recorded within the carrying amount of the investment property if it is considered probable that the entity shall gain future economic benefits that exceed the initially estimated rate of efficiency of the existing investment property. All other subsequent costs are recognized as an expense for the period in which they are incurred.

Subsequent to initial recognition, investment property is remeasured at fair value, which method is used for the valuation of an investment property following its initial acquisition and changes in the fair value are recognised in the income statement.

At the end of each fiscal year investment property is valued by a licensed appraiser, based upon art.20.1 and 2 of SIPCA. Upon assessing the valuation of the Company's investment property as of December 31, 2007 the appraisers use the "Fair market value" approach. Fair market value (FMV) is the most probable price at which an asset would be sold on a competitive and open market and under all conditions requisite to a fair transaction, namely that both the buyer and seller are rational and have a reasonable knowledge of all relevant facts related to the particular asset, that both consider their personal interest and neither is under any compulsion to act, and the transaction is conducted within a reasonable period of time.

The following approaches for the appraising of agricultural land are applied:

- Direct income capitalization;
- Sales comparison (market analogy).

Direct income capitalization – this approach is based on the direct relation between the land value and the yield. It is used for agricultural land with constant income such as entrepreneurial and rental, for which average annual income can be determined. The owner of the agricultural land receives perpetual annual income in the form of rental. The present value of the life rental income is equal to the ratio between the annual income obtained and the capitalisation rate.

The capital value of real estate is formed in two ways. Firstly, this is a ratio between the net income and the capitalisation rate, and secondly, a ratio between the rental income (part of the net income) and the respective capitalisation rate. The rate of capitalisation of the net income is determined by excerpts as the difference between the rate of return of the investment in land to the investor and the average annual growth of the expected annual income. The capitalisation rate of the rental income coincides with the capitalisation rate of the land at its natural regeneration. The resulting value, weighted using appropriate coefficients, represent the value of the agricultural land under the direct income capitalisation approach.

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For the year ended on December 31<sup>st</sup>, 2007

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Sales comparison – this approach is based on analogy or comparison. It is based upon the market prices of analogical successfully completed deals and is more precise if the appraiser has more extensive data in respect of successfully realized deals. This approach is successful since it allows easy analysis of the appraisal and relates to easily accessible information.

Investment properties are not depreciated. The monetary amount of the difference between the carrying amount and the fair value of the investment property as of the end of each fiscal year is reported in the income statement for the year then ended.

Other agricultural land appraising methods have also been used.

### **3.4 Financial assets held for trading**

Financial assets held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term. Regular-way purchases and sales of investments are recognized on trade date, being the date on which the Company commits to purchase or sells the asset. Investments are initially recognized at cost, being the fair value of the respective consideration paid. Transaction costs for all financial assets are expensed as incurred through profit or loss. Financial assets held for trading, are subsequently remeasured at fair value. Investments are recognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

As of the balance sheet date financial assets held for trading are reviewed for any indication of impairment. If any such indication exists, the asset's recoverable value is determined and appropriate adjustment made to the carrying value.

Gains and losses arising from changes in the fair value of financial assets held for trading are included in the income statement in the period in which they arise. Interest income on debt instruments is calculated using the effective interest method on a time proportion basis and presented separately in the income statement.

### **3.5 Fair value estimation**

The fair value of financial instruments traded in active markets, such as publicly traded bonds and trading securities, is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

### **3.6 Cash and equivalents**

Cash and equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

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For the year ended on December 31<sup>st</sup>, 2007

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**3.7 Bonds issue**

The direct costs incurred during the bonds issue are deferred for the period of the issue. Interest expenses are recorded using the effective interest method, while the bond loan is represent by the amortized value.

**3.8 Recognition of income and expenses**

Income and expenses are recognised at the time that they arise, regardless of actual cash flows. Recognition of income and expenses is based on comparability, current book-keeping and caution.

**3.9 Gains on revaluation of investment property**

Subsequent to initial recognition, investment property is remeasured at fair value, which method is used for the valuation of an investment property following its initial acquisition and changes in the fair value are recognised in the income statement.

**3.10 Rental income**

The Company is party to rental contracts as the landowner. Rental income is recognised in the income statement on the basis of existing rental contracts for the relevant period.

**3.11 Interest income and expenses**

Interest income and expenses are recognised in the income statement for all interest bearing financial instruments on a time proportionate basis using the effective interest method, while all change from the initial recognition value of the respective asset or liability as well as their maturity value is amortised.

**3.12 Foreign currency transaction**

Foreign currency transactions entered into are initially accounted for by applying the central exchange rate of the Bulgarian National Bank (BNB) to the foreign currency amount as of the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated into BGN using the BNB rate of exchange at the balance sheet date for the respective currencies. Any gain or loss resulting from the change in rates of exchange subsequent to the date of the transaction is included in the income statement as a gain or loss from the revaluation of foreign currency positions.

Effective from January 1, 1999, the Bulgarian Lev was fixed to the EUR at a rate of BGN 1.95583 = EUR 1.00. The BNB determines the exchange rate of the BGN to other foreign currencies using the rate of the EUR to the respective currency, quoted in the international markets.

**3.13 Employee benefits**

The Company has not developed and does not apply any programs for employee retirement benefits, other long-term employee benefits, or for compensating employees by way of shares from the Company's share capital.

The Company recognizes current liabilities related to unused paid annual leave dues from prior periods. Current liabilities due to employees may include salaries, other remunerations and social

## NOTES

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security contributions. As of December 31, 2007, the Company has reported current liabilities in respect of unused paid annual leave dues.

**3.14 Taxation**

Taxation currently payable is calculated in compliance with the Bulgarian legislation. According to the Corporate Income Tax Act effective as of December 31, 2006, special investment purpose companies licensed under SIPCA, are exempt from corporate income taxation. Therefore, the Company does not accrue any current or deferred income taxes as of the balance sheet date.

**3.15 Financial instruments**

All financial assets and liabilities are initially recognized at fair value, which is the fair value of payment (for an asset) or receipt (for a liability) of respective compensation. Financial assets include financial assets held for trading, loans and receivables, held until maturity and financial assets available for sale. Financial assets held for trading and those available for sale are subsequently valued at fair value, where changes in the fair value are recognized as income or expenses in the income statement (in the case of assets held for trading) or are recognized as equity (in the case of assets available for sale). Loans, receivables and financial assets, held until maturity are subsequently remeasured at amortized value using the effective interest rate method.

Debt and capital instruments are classified respectively as financial liabilities or equity in respect to the contract. A capital instrument is any contract, which leaves residual value in the assets of the Company after deduction of all liabilities. Capital instruments are recognized at received incomings, net of issue costs. Financial liabilities are classified either as financial liabilities, recognized at fair value in the profit or loss, or as other financial liabilities. Each income/expense, related to financial liabilities recognized at fair value in the profit or loss, is recognized in the profit and loss. Other financial liabilities, including loans, are initially measured at fair value, net of transaction costs. They are subsequently valued at amortized value using the effective interest rate method, while the interest expense is recognized on the basis of effective return.

Financial assets are being reviewed at the balance sheet date for signs of impairment or revaluation. If any such indication exists, the asset's recoverable value is determined and appropriate adjustment made to the carrying value.

**4. INVESTMENT PROPERTY**

|  | Area,<br>decares      | Acquisition<br>value, BGN,<br>thousands. | Subsequent<br>revaluation,<br>BGN,<br>thousands. | Carrying value,<br>BGN,<br>thousands. |
|--|-----------------------|--|--|---------------------------------------|
| Agricultural land                                |                       |  |  |                                       |
| As of December 31, 2006                          | 143,978               | 45,108                                   | 12,093   | 57,201                                |
| Revaluation in 2007 of land acquired during 2006 | -                     | -  | 37,958   | 37,958                                |
| Land acquired during 2007                        | 107,500               | 33,388                                   | 13,185   | 46,573                                |
| Written-off during 2007                          | (41)                  | (600)                                    |  | (600)                                 |
| <b>As of December 31, 2007</b>                   | <b><u>251,437</u></b> | <b><u>77,896</u></b>                     | <b><u>63,236</u></b>                             | <b><u>141,132</u></b>                 |

The total value of investment property as of December 31, 2007, amounting to 141,132 thousand BGN, includes revaluation amounting to 51,143 thousand BGN carried out during 2007 and revaluation amounting to 12,093 thousand BGN carried out in 2005 and 2006. These revaluation

## NOTES

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gains are based on appraisal reports done by independent appraisers, certified by the Ministry of agriculture, engaged by the Company to carry out the annual revaluation of investment property in accordance with art.20.1 and 20.2 of SIPCA. The revaluation of investment property for 2007 amounting to 51,143 thousand BGN includes the revaluation in 2007 of agricultural land acquired in 2005 and 2006, amounting to 37,958 thousand BGN, and subsequent revaluation of land acquired during 2007 amounting to 13,185 thousand BGN (also see note 17).

The Company has signed rental contracts for the 2006/2007 agricultural season for 64 thousand decares, which is 50% of the land acquired during the season. Rental income for 2007 amounts to 627 thousand BGN and is presented in the income statement. As of the date of the preparation of the statements, 599 thousand BGN have been received.

During 2007 the Company has made the following trades of investment properties:

|   | Traded lands,<br>decares | Value of traded<br>lands, BGN,<br>thousands | Acquired land<br>through trade,<br>decares | Value of acquired<br>lands through<br>trade, BGN,<br>thousands |
|---|--------------------------|---|--|--|
| Agricultural<br>land for non-<br>agricultural<br>purposes | 5                        | 593   | 5  | 881  |

During 2007 the Company has executed a trade deal for lands, according to which, agricultural land for non-agricultural purposes with a carrying value of 593 thousand BGN is traded for analogical land valued at 882 thousand BGN with an additional payment of 76 thousand BGN. The total income from the deal amounts to 958 thousand BGN.

36 decare of land have been sold during 2007 at a value of 13 thousand BGN.

## 5. INTEREST INCOME

Interest income consists of:

|                 | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|-----------------|-----------------------------|-----------------------------|
| Deposits        | 576                         | 802                         |
| Debt securities | 119                         | 231                         |
| Other           | 9                           | -                           |
| Total           | 704                         | 1,033                       |

ELANA AGRICULTURAL LAND OPPORTUNITY FUND REIT

NOTES

For the year ended on December 31<sup>st</sup>, 2007

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**6. PROPERTY, PLANT AND EQUIPMENT**

|                          | Office<br>equipment | Fixtures and<br>fittings | Transport<br>vehicles | Intangible<br>assets | Total |
|--------------------------|---------------------|--------------------------|-----------------------|----------------------|-------|
| Book value               |                     |                          |                       |                      |       |
| At January 1, 2006       |                     |                          |                       |                      |       |
| Additions in 2006        | 27                  | -                        | 24                    | 1                    | 52    |
| As at December 31, 2006  | 36                  | 4                        | 24                    | 1                    | 65    |
| Additions in 2007        | 14                  | 1                        | -                     | 9                    | 24    |
| As at December 31, 2007  | 50                  | 5                        | 24                    | 10                   | 89    |
| Accumulated depreciation |                     |                          |                       |                      |       |
| As at January 1, 2006    | 2                   | -                        | -                     | -                    | 2     |
| Change for 2006          | 10                  | -                        | 1                     | -                    | 11    |
| As at December 31, 2006  | 12                  | -                        | 1                     | -                    | 13    |
| Change for 2007          | 19                  | 1                        | 6                     | 4                    | 30    |
| As at December 31, 2007  | 31                  | 1                        | 7                     | 4                    | 43    |
| Net book value           |                     |                          |                       |                      |       |
| As at December 31, 2006  | 24                  | 4                        | 23                    | 1                    | 52    |
| As at December 31, 2007  | 19                  | 4                        | 17                    | 6                    | 46    |

**7. ACCOUNTS RECEIVABLE**

|  | As of<br>31.12.2007 | As of<br>31.12.2006 |
|--|---------------------|---------------------|
| Receivables from regional representatives    | 705                 | -                   |
| Receivables from rent of investment property | 207                 | -                   |
| Receivables from clients and suppliers       | 9                   | 1,309               |
| Receivables from interest                    | 46                  | 321                 |
| Advances to employees                        | 2                   | 2                   |
| Other receivables                            | 13                  | 15                  |
| Total  | 982                 | 1,647               |

**8. FINANCIAL ASSETS HELD FOR TRADING**

In 2006 financial assets held for trading comprised of corporate mortgage bonds issued by Investbank AD and Teximbank AD. During 2007 these mortgage bonds were sold. At the end of the fiscal year the Company does not hold any financial assets held for trading.

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Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

**9. CASH AND EQUIVALENTS**

|                           | As of<br>31.12.2007 | As of<br>31.12.2006 |
|---------------------------|---------------------|---------------------|
| Cash on hand              | 28                  | 14                  |
| Funds in current accounts | 2,386               | 1,301               |
| Deposits in BGN           | 8,186               | 17,033              |
| Total                     | <u>10,600</u>       | <u>18,348</u>       |

**10. ACCOUNTS PAYABLE**

|                                      | As of<br>31.12.2007 | As of<br>31.12.2006 |
|--------------------------------------|---------------------|---------------------|
| Payables to the servicing company    | 1,771               | 787                 |
| Payables to regional representatives | 740                 | -                   |
| Payables to clients and suppliers    | 77                  | 943                 |
| Financial leasing payables           | 15                  | 20                  |
| Tax payables                         | 1                   | -                   |
| Due to personnel                     | 53                  | 3                   |
| Social security fund dues            | 3                   | 1                   |
| Total                                | <u>2,660</u>        | <u>1,754</u>        |

**11. SHARE CAPITAL**

|                               | Number of shares  | Par value in BGN | Share capital in<br>BGN, thousands |
|-------------------------------|-------------------|------------------|------------------------------------|
| As of 01.01.2006              | 19,931,843        | 1                | 19,932                             |
| Shares issued during the year | 39,784,042        | 1                | 39,784                             |
| As of 31.12.2006              | <u>59,715,885</u> | <u>1</u>         | <u>59,716</u>                      |
| As of 31.12.2007              | <u>59,715,885</u> | <u>1</u>         | <u>59,716</u>                      |

**12. BONDS ISSUE**

During 2007 the Company issued three year unsecured bonds totaling 10 000 000 EUR with an annual interest rate of 7%, payable twice a year, while the principal is paid once – at the maturity.

Interest expenses for 2007 amount to 563 thousand BGN.

The issue costs of 98 thousand BGN have not been deferred for the duration of the bond loan, they are recognised in the income statement of the Company as they are deemed non-essential.

As of 31.12.2007 accrued interest on the bonds issue amounts to 561 thousand BGN.

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**13. HIRED SERVICES**

|  | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|--|-----------------------------|-----------------------------|
| Remuneration to the servicing company  | 3,517                       | 1,681                       |
| Advertisement  | 243                         | 26                          |
| Rent and maintenance   | 186                         | 120                         |
| Remuneration for rental contract signing   | 165                         | -                           |
| Bonds issue expences   | 98                          | 492                         |
| Consulting on issue of shares  | -                           | 334                         |
| Expenses on management of available funds  | 84                          | 24                          |
| Remuneration of certified appraisers   | 59                          | 18                          |
| Remuneration of certified auditor  | 111                         | 15                          |
| Consulting services  | 37                          | 34                          |
| Legal services   | 15                          | 25                          |
| Fees (Central Depository, Financial Supervision Commission,<br>Bulgarian Stock Exchange, others) | 14                          | 14                          |
| Memberships fees for the Bulgarian Association of Agricultural Land<br>Owners                    | 7                           | -                           |
| Insurance  | 6                           | -                           |
| Preparation of a credit rating   | 4                           | 2                           |
| Other hired services   | 44                          | 104                         |
| Total  | <u>4,590</u>                | <u>2,889</u>                |

**14. RELATED PARTY TRANSACTIONS**

According to par.1.3 of the Supplementary Provisions of the Tax and Social Insurance Procedure Code for related parties, the Company has had transactions with the following related parties: Elana Property Management, Elana Investment and Elana Trading, while other related parties to the Company are Elana Holding and other companies of the Elana Holding group. The connection arises from the common owner, the considerable influence from physical or legal entities over the financial and operational activities of the Company, including from other members of the management of other companies in the Elana Holding group.

As of 31.12.2007 the above companies are not related parties to the Company, according to the applicable definitions of point 12 of par. 1 of the Supplementary Provisions of the Public Offering of Securities Act.

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Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

Payables/receivables from related parties as of the date of the balance sheet are as follows:

|   | As of<br>31.12.2007 | As of<br>31.12.2006 |
|---|---------------------|---------------------|
| Payables to Elana Property Management in relation to contract based remunerations | 1,771               | 787                 |
| Payables to Elana Fund Management in relation to contract based remunerations     | 5                   | 11                  |

All transactions with related parties during 2007::

|  | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|--|-----------------------------|-----------------------------|
| Remuneration for the servicing company – Elana Property Management                             | 3,517                       | 1,681                       |
| Remuneration to Elana Investment for consulting services                                       | -                           | 24                          |
| Remuneration to Elana Trading in relation to the issue of bonds                                | 98                          | 492                         |
| Remuneration to Elana Fund Management in based on a contract for management of available funds | 84                          | -                           |

## 15. EARNINGS PER SHARE

Earnings per share is calculated based upon the profit after taxation divided by the weighted average number of ordinary shares outstanding during the reporting period. The weighted average number of shares represents the total number of ordinary shares outstanding at the beginning of the period, adjusted for ordinary shares issued or redeemed during the period, multiplied by the time-weighting factor in order to arrive at the average number of shares in issue on a proportionate basis..

|                           | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|---------------------------|-----------------------------|-----------------------------|
| Profit after taxation     | 47,451                      | 8,976                       |
| Number of issued shares   | 59,715,885                  | 40,096,357                  |
| Earnings per share in BGN | 0.80                        | 0.22                        |

## 16. FINANCIAL RISK MANAGEMENT

### Strategy in using financial instruments

The Company's objectives are to achieve capital growth and income growth through investing in the acquisition and subsequent sale of real estate properties, specifically agricultural land.

The Company is exposed to price risk, interest rate risk, credit risk, liquidity risk, market and capital risk arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below.

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Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

*Credit risk*

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any. The Company's credit risk concentration is spread between its purchases of investment properties and financial assets held for trading, and its accounts receivable. The Company manages its exposure to credit risk on a regular basis by closely monitoring credit limits, its receivables from agents and concentration of exposure.

The majority of transactions in land, bonds and securities are settled upon delivery using approved brokers and agents. Advanced payments are made only to those agents with which the Company has established a close business relationship.

*Liquidity risk*

The Company monitors its cash flows, the maturities of its debt liabilities and its liquidity in order to assess its exposure to liquidity risks. The Company maintains sufficient funds in order finance its operations and mitigate fluctuations in cash flows. The Company provides necessary funds through credit possibilities from financial institutions, while securing loans with its own investment property, or through public issue of shares.

Timing of receivables

| As of 31.12.2007                          | Less than 1<br>month | 1 to 3 months | 3 months to 1<br>year |
|---|----------------------|---------------|-----------------------|
| Cash and equivalents                      | 2,414                | 8,186         | -                     |
| Advances to suppliers, brokers and agents | 708                  | -             | 12                    |
| Receivables from rent and suppliers       | 216                  | -             | -                     |
| Interest receivables                      | 46                   | -             | -                     |
| Total financial assets                    | <u>3,384</u>         | <u>8,186</u>  | <u>12</u>             |

Timing of payables

| As of 31.12.2007                                    | Less than 1<br>month | 1 to 3 months | 3 months to 1<br>year |
|---|----------------------|---------------|-----------------------|
| Payables to financial institutions, including banks | -                    | 561           | -                     |
| Financial leasing payables                          | -                    | -             | 15                    |
| Payables to suppliers and agents                    | 812                  | -             | -                     |
| Payables to related parties                         | 1,776                | -             | -                     |
| Payables to employees                               | 53                   | -             | -                     |
| Payables to social security funds                   | 3                    | -             | -                     |
| Other taxation payables                             | 1                    | -             | -                     |
| Total financial liabilities                         | <u>2,645</u>         | <u>561</u>    | <u>15</u>             |

*Interest risk*

The Company is exposed to interest risk due to fluctuations in the prevailing levels of market interest rates, in respect of its demand deposit accounts maintained. Its corporate bond accounts earn interest at fixed rates. Interest rates applicable to the Company's financial assets are disclosed in each relevant note to these financial statements. The Company does not currently use any special financial instruments in order to hedge such risks in respect of its earning deposit accounts.

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The value of the Company's assets depends on the dynamics of market interest rates. The Company is exposed to interest rate fluctuation risk, as the earnings from interest bearing assets changes as a result of changes in the market interest rates. In relation to flexible interest rates, the Company is exposed to risk depending on the interest index to which the specific financial instrument is tied.

Timing of receivables and payables

| Assets as of 31.12.2007   | Under 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years  | Non-interest bearing | Total         |
|---|---------------|---------------|--------------------|---------------|----------------------|---------------|
| Receivables from regional representatives                             | -             | -             | -                  | -             | 705                  | 705           |
| Receivables from tenant farmers                                       | -             | -             | -                  | -             | 207                  | 207           |
| Other receivables and advances  | -             | -             | -                  | -             | 24                   | 24            |
| Receivables from interest   | -             | -             | -                  | -             | 46                   | 46            |
| Cash at hand  | -             | -             | -                  | -             | 28                   | 28            |
| Bank accounts   | -             | 8,186         | -                  | -             | 2,386                | 10,572        |
| <b>Total assets</b>   | <b>-</b>      | <b>8,232</b>  | <b>-</b>           | <b>-</b>      | <b>3,350</b>         | <b>11,582</b> |
| <br>  |               |               |                    |               |                      |               |
| Liabilities as of 31.12.2007  | Under 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years  | Non-interest bearing | Total         |
| Payables to financial and non-financial institutions, including banks | -             | -             | -                  | 19,558        | -                    | 19,558        |
| Interest payables   | -             | -             | -                  | -             | 561                  | 561           |
| Financial leasing dues  | -             | -             | 5                  | 10            | -                    | 15            |
| Payables to agents  | -             | -             | -                  | -             | 740                  | 740           |
| Payables to suppliers   | -             | -             | -                  | -             | 77                   | 77            |
| Payables to related parties   | -             | -             | -                  | -             | 1,771                | 1,771         |
| Payables to employees   | -             | -             | -                  | -             | 53                   | 53            |
| Payables to social security funds                                     | -             | -             | -                  | -             | 3                    | 3             |
| Tax payables  | 1             | -             | -                  | -             | -                    | 1             |
| <b>Total liabilities</b>  | <b>1</b>      | <b>-</b>      | <b>5</b>           | <b>19,568</b> | <b>3,205</b>         | <b>22,779</b> |

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Unless otherwise stated, all figures are in BGN thousands, where 1 EUR = 1.95583 BGN

| Assets as of 31.12.2006                   | Under 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Non-interest bearing | Total         |
|---|---------------|---------------|--------------------|--------------|----------------------|---------------|
| Receivables from regional representatives | -             | -             | -                  | -            | 1,310                | 1,310         |
| Receivables from interest                 | -             | -             | -                  | -            | 321                  | 321           |
| Other receivables and advances            | -             | -             | -                  | -            | 15                   | 16            |
| Cash on hand                              | -             | -             | -                  | -            | 14                   | 14            |
| Bank accounts                             | -             | -             | 17,034             | -            | 1,300                | 18,334        |
| Financial assets held for trading         | -             | -             | 7,036              | -            | -                    | 7,036         |
| <b>Total assets</b>                       | <b>-</b>      | <b>-</b>      | <b>24,070</b>      | <b>-</b>     | <b>2,960</b>         | <b>27,030</b> |

  

| Liabilities as of 31.12.2006         | Under 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Non-interest bearing | Total        |
|--------------------------------------|---------------|---------------|--------------------|--------------|----------------------|--------------|
| Payables to regional representatives | -             | -             | -                  | -            | 923                  | 923          |
| Payables to suppliers                | -             | -             | -                  | -            | 9                    | 9            |
| Payables to related parties          | -             | -             | -                  | -            | 798                  | 798          |
| Payables to employees                | -             | -             | -                  | -            | 3                    | 3            |
| Payables to social security funds    | -             | -             | -                  | -            | 1                    | 1            |
| <b>Total liabilities</b>             | <b>-</b>      | <b>-</b>      | <b>-</b>           | <b>-</b>     | <b>1,734</b>         | <b>1,734</b> |

*Foreign currency risk*

The Company is exposed to foreign currency risk when making transactions with financial instruments denominated in foreign currency. Transactions denominated in foreign currency lead to profits and losses due to exchange rate fluctuations. As of 31.12.2007 financial assets of the Company are denominated in BGN and EUR. The exchange rate between the two currencies is fixed and does not cause exposure to foreign currency risk. At present, the Company is not exposed to currencies other than BGN and EUR.

*Market risk*

Market risk is a systematic risk influencing the value of all assets. It stems from the characteristics of the macro economical environment and the status of the capital market in the country. The Company has no influence over market risk and it may not be diversified. Forecasting and adjustment of the Company's investment policy is the only method of minimizing this risk.

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|   | December 31, 2007 |   | December 31, 2006 |   |
|---|-------------------|---|-------------------|---|
|   | Acquisition value | % of the total acquisition value of investment properties | Acquisition value | % of the total acquisition value of investment properties |
| Agricultural land                               | 51,969            | 67%   | 26,396            | 59%   |
| Agricultural land for non-agricultural purposes | 25,926            | 33%   | 18,712            | 41%   |
| Total   | <u>77,895</u>     | <u>100%</u>   | <u>45,108</u>     | <u>100%</u>   |

*Capital risk*

The Company manages its capital, while aiming to maximize returns for its shareholders through optimization of its capital structure. The Company's strategy has not changed since 2006.

*Debt/Equity ratio:*

|                       | Year ended on<br>31.12.2007 | Year ended on<br>31.12.2006 |
|-----------------------|-----------------------------|-----------------------------|
| Debt                  | 22,702                      | 20,102                      |
| Cash and equivalents  | (10,600)                    | (18,348)                    |
| Net debt              | <u>12,102</u>               | <u>1,754</u>                |
| Equity                | <u>129,981</u>              | <u>82,530</u>               |
| Net debt/equity ratio | <u>0.09</u>                 | <u>0.02</u>                 |

The Company has used debt financing after investing its share capital. The policy is to take out short-term bridge loans until the following capital increase.

*Price risk*

The Company trades in financial instruments, taking positions in traded and over-the-counter instruments to take advantage of short-term market movements in the money and bond markets.

The Company's interest rate securities and trading financial instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Company's market price risk is managed through diversification of the investment portfolio ratios by exposures. The Company's overall market positions are monitored on a regular basis by the Company's manager and are reviewed on a periodic basis by the BoD.

**17. POST BALANCE SHEET EVENTS**

Sale preparation and rezoning procedures began in 2008 of two of the Company's investment properties: "Kambanite" and "Detelinata".

The investment properties of the Company are measured at fair value based on reports from independent certified appraisers. A substantial part of the Company's investment properties as well as incomes as of 31.12.2007 is accounted for by the revaluation of "Kambanite" and "Detelinata" properties. The fair value of these properties as of 31.12.2007 and 31.12.2006 is measured by reports from independent certified appraisers as follows:

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| Property  | 31.12.2006 | 31.12.2007 | Gains from revaluation in 2007 |
|---|------------|------------|--------------------------------|
| KAMBANITE (Bistritsa village, municipality of Pancharevo, Sofia region) | 20,916     | 48,106     | 27,190                         |
| DETELINATA (Vrajdebna, Mogilite area, Sofia)                            | 3,910      | 11,301     | 7,391                          |

As long as the market for large areas of agricultural lands is insufficiently developed, a possible uncertainty about the prices of such plots exists. Therefore, the fair value of these properties may defer from the value measured by the independent certified appraiser. Their fair value may be reliably measured at their eventual sale during the following reporting periods.