

FAIR PLAY PROPERTIES REIT

APPENDIX TO THE INTERMEDIATE FINANCIAL STATEMENTS

As at 30.09.2008

1. GENERAL INFORMATION

"FairPlay Properties" REIT is a joint-stock company with a special investment purpose for the securitization of real estates, in the sense of the Act on the Special Investment Purpose Companies. The company scope of business is investment of funds, collected via the issuance of securities, in real estates (securitization of real estates) via the purchase of the property right and other real rights to the real estates, construction and improvements, with the purpose of the estates submission for management, offering for rent, leasing or granting on rent and their sale.

The company was established at the Establishment Meeting on 15.07.2005 and was registered in the Companies Register with decision № 1/28.07.2005 of the Sofia City Court under case file № 8851 dated 28.07.2005, entered at the Companies Register under № 95723, volume 1273, page 149.

According to the Act on the Special Investment Purpose Companies "Fair Play Properties" REIT has a one-tier management system.

The company is managed by a Board of Directors in the following composition:

- **Manyu Todorov Moravenov** – chairman of the Board of Directors and Executive Director
- **Ivaylo Aleksandrov Panov** – member of the company Board of Directors
- **Svetoslav Petrov Soltariev** - member of the company Board of Directors

The company address of administration and for correspondence is: Sofia, 51B "Cherni vruch" blvd.

The company web site is <http://www.fpp.bg>

2. ACCOUNTING POLICY

Basis for the preparation of the financial statements

The basis for the preparation of the company financial statements are the Accountancy Act and the International Financial Reporting Standards (IFRS), Decree by the Council of Ministers 207 dated 07.08.2006, promulgated in State Gazette no 66 from 2006

General provisions

The most significant accounting policies, applied in the preparation of these financial statements, have been presented below.

Transactions in foreign exchange

The company financial statements are prepared in Bulgarian leva (BGN) and that is the company reporting currency.

The transactions in foreign exchange are reported upon their initial recognition in the company reporting currency at the official exchange rate on the day of the transaction (the reference rate of the Bulgarian National Bank). The exchange rate differences that occur in the settlement or a revaluation of cash positions in foreign exchange at the end of the period are reported in the income statement.

Income and expenses

Income is evaluated at the fair value of the payment or consideration, obtained or to be obtained, taking into consideration the amount of all commercial rebates and quantitative rebates, granted by the company. Upon the substitution of similar assets, which have a similar price, the substitution is not considered as a transaction, which generates income.

In the sale of goods income is recognised, when the following conditions are met:

- The significant risks and benefits from the ownership of goods have been transferred to the buyer;
- They have not preserved the continuing participation in the management of goods or efficient control on them;
- the amount of income may be evaluated reliably;
- it is probable that economic benefits from the transaction are realised;
- the incurred expenses or future expenses may be reliably evaluated.

The income, associated with the transaction for the rendering of services, is recognized, when the transaction result may be reliably evaluated.

The operative expenses, as well as the interest income and expenses, are recognised in the income statement at the moment of their occurrence, in keeping with the accruals principle. The income and expenses, concerning the same transaction, are recognised at the same time.

Intangible assets

Intangible assets are evaluated initially at the acquisition price. Upon purchase it is equal to the purchase price, increased by all non-recoverable taxes and the incurred direct expenses in relation to preparing the asset for exploitation.

The subsequent expenses, which occur in relation to the intangible assets after the initial recognition, are recognised in the income statement in the period of their occurrence, except if there is a probable increase in their initially evaluated efficiency and when these expenses may be reliably evaluated and transferred to the asset. In these cases the expenses are capitalised.

Depreciation is calculated, using the linear method for the evaluated useful life of the distinct assets.

The subsequent evaluation of the intangible assets is made according to the model of revaluated value, which as at the revaluation date is the assets fair value.

The selected threshold of significance for the company fixed intangible assets is BGN 500 (five hundred).

Property, machines and equipment

The property, machines and equipment are evaluated initially at the acquisition price, including the purchase price, as well as all direct expenses for placing the asset to the location and state, necessary for the asset exploitation. Each separate property, machine, equipment or facility is recognised as an asset only if the company is likely to obtain economic benefits in the future, concerning the asset, and the price of acquiring the asset may be reliably evaluated.

The subsequent evaluation of property, machines and equipment is made according to the model of revaluation, i.e. according to the revaluated value, which is equal to the fair value as at the date of revaluation, decreased by the subsequently accrued depreciation and devaluation losses.

The subsequent expenses, concerning certain fixed tangible asset, are added to the book value of the asset, when the company is likely to derive economic benefits, exceeding the initially evaluated efficiency of the existing asset.

All other subsequent expenses are recognised in the income statement for the period, in which they have been made.

Depreciation is calculated, using the linear method for the evaluated useful life of the distinct asset groups.

The selected significance threshold for fixed tangible assets of the company is to the amount of BGN 500 (five hundred).

The expenses for the construction of real estates, which the company incurs, are classified as "Expenses for the acquisition of fixed tangible assets", and upon their completion and offering for rent, the newly acquired estates are transformed at cost into investment property.

Devaluation of the company assets

The individual assets or entities, generating cash flows, are reviewed about any indications of devaluation in the value once a year as at the date of preparation of

the annual financial statements, as well as whenever events or a change in the circumstances indicate that the carrying value of assets may not be recovered.

In the cases, in which the recoverable value of an asset is lower than its book value, the book value of the asset shall be decreased to the amount of the recoverable value. That decrease is the devaluation loss.

The recoverable value is the higher than the fair value, decreased with the expenses for the asset sale and the value in use, based on the present value of the forecasted future cash flows, expected to be obtained from the asset within its useful life.

With the exception of the reputation for all remaining company assets as at each date of the report the management decides whether there are indications that the devaluation loss, recognised in previous years, may not exist or may be decreased.

Investment property

The company records as investment property land and buildings, which are kept rather to obtain rent income or for the purposes of a capital increase or for both purposes, than for:

- use in the production activity or for administrative purposes;
- sale within the ordinary economic activity.

The investment property is recognised as an asset in the company financial statements provided that the following two requirements are complied with:

- future economic benefits are likely to be derived from the investment property;
- the value of the investment property may be duly evaluated.

The investment property is evaluated initially at the acquisition price.

After its initial recognition investment property is recorded, using the fair value model. The fair value is the most probable price, which may be obtained on the market as at the date of the annual financial statements.

The change in the fair value of the investment property is recorded in the income statement.

The subsequent expenses, concerning investment property, which are already recognised in the company financial statements, are added to the book value of the property, when the company is likely to derive future economic benefits, exceeding the initially evaluated value of the existing investment property. All other subsequent expenses are recognised in the income statement in the period, in which they have occurred.

The land, acquired by the company, on which buildings will be erected, which complies with the conditions for investment property, is presented in the balance sheet as an investment property at fair value.

Inventory

When the following conditions are present at the same time:

- the company acquires land, on which buildings (apartments) will be built, whose values will be recovered mainly via sale and
- the book value of land will be recovered mainly via the land sale or via the sale of the construction right on the land, together with the sale of the buildings constructed on the land;

The company presents this land in the balance sheet as a current asset ("Work in progress" or "Production") – an element of the cost of the building, under

construction or already built up. As an element of cost land is stated at its acquisition price.

The cost of the real estates constructed by the company is indicated as "Production" in the balance sheet, whereas the value of these real estates will be recovered via sale.

Financial assets

Financial assets include funds and financial instruments. Financial instruments, with the exception of the hedging instruments, may be divided into the following categories: loans and receivables; financial assets, recorded at fair value in the profit or loss; investments held to maturity; and financial assets available for sale. Financial assets are transferred to the various categories depending on the purpose, for which they were acquired. Their place within the respective category is reviewed as at each accounting period.

Financial assets are recognised initially at fair value, and in the cases of acquisition of financial assets, which are not recorded at fair value in profit or loss, plus the transaction expenses, which are transferred directly to the acquisition of the financial asset.

The writing off of a financial instrument is made, when the company loses control over the contractual rights, which constitute the financial asset – when the contractual rights have expired or the asset was sold.

The devaluation tests are performed at each date of balance sheet preparation in order to determine whether there is objective proof about the presence of devaluation of specific financial assets or groups of financial assets.

The investments held to maturity are financial instruments with fixed or determinable payments and a certain maturity date. The investments are determined as held to maturity, if the intention of the company management is to keep them to maturity. The investments held to maturity are subsequently evaluated at amortised cost, using the effective interest rate method. Upon any devaluation of the investment, the financial instrument is evaluated at the present value of the accrued cash flows. All changes in the carrying value of the investment are recorded in the income statement.

The financial assets, recorded at fair value in profit or loss are those assets, which were acquired mainly with the purpose of sale in the near future, as well as the derivative financial assets, unless they are effective hedging instruments. After the initial recognition the financial assets from this category are evaluated at fair value.

The financial assets available for sale are those financial assets that are not loans and receivables, investments held to maturity, or financial assets, recorded at fair value in profit or loss. The financial assets from this category are subsequently evaluated at fair value.

The loans and receivables are financial assets with fixed or determinable payments, which are not quoted on an active market. They are created by the company via the direct granting of cash, goods or services to a given debtor. The loans and receivables are subsequently evaluated at amortised cost, using the method of the effective interest rate. The commercial receivables are devaluated, when there is objective evidence, that the company will not be able to collect the due amounts in keeping with the original transaction conditions.

Capital

The company share capital represents the nominal value of issued shares.

Financial liabilities

The financial liabilities are recognised, whenever there is a contractual obligation for the payment of funds or another financial asset of another company or the contractual obligation for the exchange of financial instruments with another company upon potentially unfavorable conditions.

Upon the initial recognition of the financial liability, the company recognises it at its fair value, plus, in the case of financial liabilities, which are not recorded at fair value in profit or loss, the transaction expenses, which concern directly the acquisition or issuance of the financial asset.

After the initial recognition the company evaluates all financial liabilities at amortised cost via the use of the effective interest rate method, with the exception of the financial liabilities, recorded at fair value in profit or loss.

All interest expenses are recognised as financial expenses in the income statement.

The dividends, payable to the company shareholders, are recognised, when they are approved at a meeting of the shareholders. The profit to be allocated among the shareholders is calculated according to the Act on the Special Investment Purpose Companies and is the financial result, adjusted as follows:

- increased /decreased with the expenses /income of subsequent evaluations of real estates;
- increased /decreased with losses /profits from transactions, associated with transferring the ownership on the real estates;
- increased /decreased in the year of transferring the ownership on the real estates with a positive /negative difference between:
 - a) the sales price of the real estate, and
 - b) the amount of the historical cost of the real estate and the subsequent expenses that led to an increase in the real estate book value;

The company distributes as dividend not less than 90 % of the profit to be allocated.

Other provisions, contingent assets and liabilities

Provisions are liabilities with uncertain manifestation in time or as a value. They are recognised whenever the following conditions are met:

- the company has present liabilities as a result of past events;
- for the liability repayment a flow of resources may be necessary;
- there may be a reliable evaluation of the liability amount.

The amount, recognized as a provision, is the best approximate evaluation of the expenses, necessary to cover the present liability as at the balance sheet date. In determining this best approximate evaluation the company takes into consideration the risks and the rate of uncertainty, associated with many of the events and circumstances, as well as the effect of the time value of money, when they have a considerable impact.

The provisions are reviewed at each balance sheet date and their value is adjusted, so as to reflect the best approximate evaluation as at the balance sheet date. If it is already not probable that an outflow of funds may be needed to settle the liability, then the provision has to be written off.

The company does not recognise contingent assets, because their recognition may lead to the recognition of income, which may never be realised.

CLARIFICATIONS TO THE INTERIM FINANCIAL STATEMENTS

3.1. As at 30.09.2008 the company has accumulated expenses for the acquisition of fixed tangible assets to the amount of BGN **3 992** thousand. The expenses (in thousand BGN) consist of the following:

Investment expenses for the construction of commercial complex and basin – stage III – Sozopol, "St. Marina" locality	974
Investment expenses for the construction of a vacation village in the village of Chernomorec	3 015
Investment expenses for the construction of a office building in Sofia, project Malina valley	3
TOTAL:	3 992

3.2. As at 30.09.2008 the company has the following investment real estates (in thousand BGN):

Real estate	Acquisition price	Subsequent evaluations	Book value
Hotel – Bansko, "St. Ivan" locality	11 758		11 758
Land – Sozopol, "St. Marina " locality	1 540	616	2 156
Land – Panichishte	1 334	1 662	2 996
Land – Chernomorec	212	58	270
Land –Sofia, project Malina valley	5 348		5 348
Land and building with a hostel and canteen – Chernomorec	3 048	1 079	4 127
Commercial complex and basin – stage I – Sozopol, "St. Marina" locality	4 977	-301	4 676
Commercial complex and basin – stage II – Sozopol, "St. Marina" locality	1 808		1 808
TOTAL:	30 025	3 114	33 139

3.3. The amount of BGN **53 359** thousand, presented as unfinished goods, is expenses for the construction of real estates (apartments), accumulated till 30.09.2008, the book value of which will be recovered mainly via sale:

Project	Accrued expenses	Land, included in cost	Book value
Project – "Santa Marina" - stage III	24 584	10 629	35 213
Project – "Santa Marina" - stage IV		1 596	1 596
Project – Sozopol, "Misaria"	10	1 716	1 726
Project – Sofia, Malina valley	1	5 947	5 948
Project – Sofia		553	553
Project – Panichishte	114	1 333	1 447
Project – Sandanski	140	1 198	1 338
Project – Sapareva bania	52	5 486	5 538
TOTAL:	24 901	28 458	53 359

3.4. The apartments and ateliers with a use permit have been presented as "Production" in the balance sheet, and the furnishing for them – as "Goods".

Project	Apartments	Furnishing
Sozopol, "St. Marina" locality– stage I and stage II	3 847	201
Bansko, "St. Ivan" locality	5 306	738
TOTAL:	9 153	939

3.5. The company cash as at 30.09.2008 is to the amount of BGN **4 287** thousand, allocated as follows:

Cash with bank accounts	BGN 3 934 thousand
Cash	BGN 353 thousand

3.6. The share capital of "Fair Play Properties" REIT as at 30.09.2008 is to the amount of BGN 55 825 370 (fifty five million eight hundred twenty five thousand), allocated into 55 825 370 (fifty five million eight hundred twenty five thousand), ordinary book entry shares, with a voting right, and a nominal value of BGN 1 (one lev) each. All issued shares have been paid cash in full.

During 2008 the capital of the Company was increased with BGN **5 125 thousand**. The amount of **BGN 6 355 thousand** was formed as an "Issue premiums".

"Fair Play Properties" REIT does not have own shares.

"Fair Play Properties" REIT does not have any subsidiaries.

3.7. The expenses, related to staff (management and administrative), include salaries and honorariums under management contracts and social security payments. The company liabilities to the staff as at 30.09.2008 are to the amount of BGN **18** thousand, and to the social security companies – BGN **5** thousand.

Till 30.09.2008 the expenses for company management are as follows (in thousand BGN):

Accounting services	16
Remuneration of the servicing company	1 214
Depository services by the depository bank	1
Services rendered by evaluation experts	11
Remuneration to the members of the Board of Directors	109
Social security payments for the MB members	7
TOTAL:	1 358

3.8. Till 30.09.2008 the following transactions with related parties were performed:

Supplier	Description of the supplies	Value without VAT in thousand BGN
"FairPlay International" AD	Management of real estate, rent, commissions, furnishing	1 556
"Ivan Rilski Properties " OOD	Construction installation works, commssions, furnishing	960
"Castilia" EOOD	Design services	90
"FairPlay International Travel and Tourism " EOOD	Transport and hotel services	2
"FairPlay Properties Management " EOOD	Management of real estate, hotel services	314
"FairPlay Residential Properties " AD	Furnishing	1

"Technotrans Global" EOOD	Transport services, rent transport vehicles	34
"FairPlay Security " EOOD	Security services	1
"Focal Point Investments" AD	Consulting	29
TOTAL:		2 987
Client	Description of the deliveries	Value without VAT in thousand BGN
"FairPlay Properties Management " EOOD	Rent	328
TOTAL:		328

The transactions with related parties were performed at fair market values.

The accounts with related parties as at 30.09.2008 (in thousand BGN) are as follows:

Supplier / Client	Receivable	Liability
"Fair Play Properties Management" EOOD	297	2
" Fair Play International Travel" AD		2
"Ivan Rilski Properties" OOD	249	
"Kastilia" EOOD	30	
"Focal Point Investments" AD		7
TOTAL:	576	11

3.9. Bank and bond loans:

No	Lender	Type of loan	Currency	Negotiated amount in foreign currency	Interest	Date of granting	Deadline for repayment	Liability for principal as at 30.09.2008 (BGN thousand)		Interest expenses for the period 01.01 - 30.09.2008 (BGN thousand)
								Current part	Non-current part	
1	Eurobank EFG Bulgaria AD	Revolving	EUR	1 500 000	One month EURIBOR + 2.0%	05.2008	05.2010		2 934	10
2	Eurobank EFG Bulgaria AD	Revolving	EUR	3 500 000	Three month EURIBOR + 2.5%	06.2007	10.2008	3 879		305
3	EFG Private Bank Luxemburg	Investment	EUR	5 000 000	One month EURIBOR + 2.1%	06.2008	05.2013	815	7 297	108
4	EIBank AD	Investment	EUR	3 000 000	6 month EURIBOR + 2.1%	07.2006	07.2008	0	0	15
5	Piraeusbank Bulgaria AD	Revolving	EUR	1 500 000	One month EURIBOR + 2.0%	12.2007	08.2009	328		102
6	Piraeusbank Bulgaria AD	Investment	EUR	2 580 000	One month EURIBOR + 2.0%	12.2007	12.2012		2 804	97
7	Piraeusbank Bulgaria AD	Investment	EUR	1 350 000	Three month EURIBOR + 2.5 %	03.2008	06.2008	0	0	40
8	Piraeusbank Bulgaria AD	Investment	EUR	3 750 000	One month EURIBOR + 2.0 %	03.2008	06.2010	3 667	3 667	226

9	Piraeusbank Bulgaria AD	revolving	EUR	1 140 000	One month EURIBOR + 2.0%	03.2008	03.2009	2 230		67
10	Piraeusbank Bulgaria AD	Investment	EUR	6 250 000	One month EURIBOR + 2.5%	04.2008	03.2011		2 445	70
Total:								10 919	19 147	1 040

On 14.08.2006 the company made a bond issue with a nominal value of the bonds EUR 4 million, interest payments every 6 months and maturity date for the principal repayment – 15.08.2011. The annual interest rate is the 6-month Euribor + 4%, but not less than 6,75%. For the period 01.01.2008 – 30.09.2008 the accrued interest expenses, associated with the bond issue, are to the amount of BGN 510 thousand, whereas BGN 90 thousand, unpaid as at 30.09.2008, have been indicated as other short-term liabilities, and BGN 8 thousand (amortization of the issue expenses) – in increase of the loan amortised value. The amortised value of the bond issue as at 30.09.2008 is to the amount of BGN **7 791** thousand.

3.10. At the date of the annual financial statements there are no distinct conditional assets, whose disclosure would impact on the true and fair presentation of the state of the company's affairs.

The collateral for obtained loans shall be announced as contingent liabilities as at 30.09.2008:

- For the loan from "Eurobank EFG Bulgaria" AD and "EFG private Bank Luxemburg S.A." – real estates with a market value BGN **37 356** thousand.
- For the loans from "Piraeusbank Bulgaria" AD – real estates with a market value BGN **18 995** thousand and future receivables.
- For the bond issue – real estates with a market value BGN **19 342** thousand.

3.11. In the income statement, in item "Net income from the sale of production" (BGN **22 239** thousand) the recognised income from the sale of apartments has been presented.

The following items have been presented in "Other income" (BGN 313 thousand):

- income from real estate rents – BGN 309 thousand
- other income – BGN 4 thousand.

For the period **01.01.2007 – 30.09.2007** are made the next reclassifications in the Income statements:

- The incomes from sales of apartments (BGN 28 400 thousand) are represented as a „ Net income from sale of production“
- The incomes from rent of investments estates (BGN 70 thousand) are represented as an „Others income from sale“
- The incomes from revaluation of investment estates (BGN 2 093 thousand) are represented as an „Others financial income“

3.12. The company financial result as at 30.09.2008 is a profit to the amount of BGN **4 535** thousand. The financial result, to be allocated among the shareholders, is calculated as follows:

1	Financial result as at 30.06.2008 (profit)	4 535 081.91
2	Income from subsequent evaluations of real estate	0.00
3	Profits from transactions associated with transferring the ownership on the real estates	11 176 782.41
4	Positive difference between the sales price and the historical price of the real estate	11 200 083.69
5	Financial result to be allocated (1 - 2 - 3 + 4)	4 558 383.19

Date: 10.10.2008

Drawn up by:

Manager:

/ Kamen Kamenov /

/ Manyu Moravenov /