

# FAIRPLAY PROPERTIES REIT

## **APPENDIX TO THE INTERMEDIATE FINANCIAL STATEMENTS**

**As at 30<sup>th</sup> September 2006**

## **1. GENERAL INFORMATION**

"Fair Play Properties" REIT is a joint – stock company with a special investment purpose for securitization of real estates in the sense of the Law on the Special Investment Purpose Companies. The Company's subject of activity is investment of monies, collected through issuance of securities, in real estates (securitization of real estates), through the purchase of ownership right and other limited property rights, execution of constructions and improvements with the purpose of their providing for management, renting, leasing or letting out on agricultural lease or sale.

The Company was established on an Incorporation meeting, held on 15 July 2005 and is entered into the commercial register with a Decision No. 1 dated 28 July 2005 of Sofia City Court, under company file No. 8851 dated 28<sup>th</sup> July 2005, entered into the register of commercial companies under No. 95723, volume 1273, page 149.

According to the Law on the Special Investment Purpose Companies "FairPlay Properties" REIT has a one-tier system of management.

The Company is managed by a Board of Directors, comprising of:

- **Anna Petrova Zaharieva** – Chairman of the Board of Directors of the Company;
- **Dora Ivanova Tzolova** – Member of the Board of Directors of the Company;
- **Manju Todorov Moravenov** – Executive director

The address of management and of correspondence of the company is: the city of Sofia, 51 B, "Cherni Vrah" Blvd.,

The web page of the Company is <http://www.fpp.bg>

## **2. ACCOUNTING POLICY**

### **Basis for preparation of the financial statements**

A basis for preparation of the financial statements of the Company are the Law on the Special Investment Purpose Companies and the International Financial Reporting Standards (IFRS), CMD 297 dated 7<sup>th</sup> august 2006, promulgated in SG, issue No. 66 of 2006.

### **General issues**

The most significant accounting policies, applied at the preparation of these financial statements are presented below.

### **Foreign currency transactions**

The financial statements of the Company are prepared in Bulgarian leva (BGN) and this is the reporting currency of the Company.

The foreign currency transactions are reported upon their initial recognition in the reporting currency of the Company, at the official rate for the day in which the transaction has been effected (the rate specified by the Bulgarian National Bank). The incomes and the costs from rate differences, arising upon the settlement of those transactions and the revaluation of the cash positions in foreign currency at the end of the period, shall be recorded in the Income statement.

### **Incomes and costs**

The incomes shall be evaluated at their just amount of the received payment or the payment subject to payment or retribution, by accounting the amount of all commercial discounts and quantity rebates made by the Company. Upon exchange of similar assets of similar price, the exchange shall not be treated as an incomes generating transaction.

Upon the sale of goods, the income shall be recognised when the following conditions have been fulfilled:

- the significant risks and benefits on the goods have been transferred to the buyer;
- there has not been preserved a continuing participation in the management of goods or an effective control thereon;
- the amount of the income can be duly evaluated;
- it is possible the economic benefits from the transactions to be received;
- the costs made or those that are to be made can be duly evaluated;

The income related to a rendering of services transaction shall be recognised when the result of the transaction can be duly evaluated.

The operative costs, as well as the incomes and the costs for interests shall be recognised in the Income statement at the moment of their occurrence, upon observation of the current reporting principle.

## **Intangible fixed assets**

The intangible fixed assets shall be evaluated initially at their prime cost. At purchase this is equal to the purchase price, increased by all paid duties, irrecoverable taxes and direct costs made in relation to the preparation of the asset for exploitation.

The subsequent costs arising in relation to the intangible assets after the initial recognition shall be recognized in the Income statement in the period of their arising, unless there is a possibility of their increasing of their initially evaluated efficiency and when those expenses might be duly evaluated and referred to the asset. In those cases the expenses shall be capitalized.

The depreciation shall be calculated by using the linear method over the evaluated useful term of the separate assets.

The chosen threshold of significance of the intangible fixed assets of the Company shall be at the amount of BGN 500 (five hundred).

## **Estates, machinery and equipment**

The estates, machinery and equipment shall be evaluated initially at their prime cost, including the purchase price, as well as all direct costs for the implementation of the asset into a working status.

The subsequent evaluation of the lands and the buildings shall be made on the basis of the admissible alternative approach, i.e. revaluated amount, which is equal to the just amount as at the date of revaluation, decreased by the depreciations and the depreciation losses, accumulated subsequently.

Subsequent costs, related to a specific fixed tangible asset shall be added to the balance value of the asset, when it is probable that the enterprise might have economic benefits, exceeding the initially evaluated efficiency of the existing asset.

All other subsequent costs are recognized as a cost for the period, in which they have incurred.

The depreciation of the tangible fixed assets shall be calculated by using the linear method over the evaluated useful life of the separate groups of assets.

The chosen threshold of significance of the tangible fixed assets of the Company shall be at the amount of BGN 500 (five hundred).

The costs for construction of real estates, made by the Company shall be classified as "Costs for acquisition of FTA" and upon their completion and renting, the newly acquired estates shall be transformed at their prime cost in investment estates. In the cases when the Company agrees satisfying prices with potential buyers, the real estates from investment ones shall be transformed into current assets (other) and those that are in a process of acquisition – into incomplete procedure.

## **Devaluation of the assets of the Company**

The individual assets or units, generating cash flows, shall be reviewed for occurrence of indicators for devaluation of their amount once per year as at the date of preparation of the balance sheet, as well as when events or change in the circumstances show that the transition value of the assets cannot be reimbursed.

In the cases when the reimbursable value of a certain asset is lower than its balance value, then the balance amount of the asset shall be decreased to the amount of the reimbursable amount of the asset. This decrease represents a loss from devaluation.

The reimbursable amount represents the higher one between the net sale price of a certain asset, based on market conditions and the amount in use, based on the present amount of the prognosis future cash flows, expected to be received from the asset within its useful term of expiry.

Except for the reputation, for all other assets of the Company as at each date of the report, the management estimates whether there exist indicators that the loss from devaluation, recognised in previous years might no longer exist or be decreased.

### **Investment estates**

The Company accounts as investment estates land and buildings, due more likely for receiving of rent incomes or for an increase of the capital or for both, than for:

- usage at production activity or administrative purposes;
- Sale within the normal economic activity.

The investment estates shall be recognised as an asset in the financial statements of the Company provided that there have been fulfilled the following two requirements:

- it is possible future economic benefits from the investment estates to be received;
- the amount of the investment estates can be duly evaluated;

The investment estates shall be evaluated initially at their prime cost.

After their initial recognition the investment estates shall be accounted by using the model of the just price. The just price represents the most probable price, which can be received at the market as at the date of the balance.

The changes in the just price of the investment estates shall be accounted in the Income statement.

The subsequent costs, related to the investment estates, which have been already recognised in the financial statements of the Company shall be added to the balance value of the estates, when it is probable that the Company might receive future economic benefits, exceeding the initially evaluated amount of the existing investment estates. All other subsequent costs are recognized as a cost for the period, in which they have incurred.

At each date of preparation of the financial statements the difference between the balance and the just amount shall be accounted as an income or a cost in the Income statement.

### **Financial assets**

The financial assets include cash and financial instruments. The financial instruments except for the hedging instruments might be divided into the following categories: credits and receivables, incurred initially in the enterprise, financial assets, held for trading, investments, held until maturity and financial assets at disposal for sale. The financial assets shall refer to the different categories depending on the purpose, with which they have been acquired. Their possession to the respective category shall be reviewed at each reporting period.

The financial assets shall be recognized initially at their prime cost, which is the just amount of the paid compensation and the respective costs on the transaction.

The writing off of a financial asset shall be made when the Company loses control over the contractual rights, comprising the financial asset. Tests for devaluation shall be made at each date of preparation of the balance in order to be determined whether there are available objective evidences for the availability of devaluation of specific financial assets or a group of financial assets.

Investments, held to maturity shall be financial assets with fixed or determinable payments and specific maturity date. The investments shall be determined as held to maturity if the intention of the management of the Company is to hold them until the occurrence of their maturity. The investments held until maturity, shall be subsequently evaluated at their depreciation value through the effective interest method. In addition to the availability of devaluation of the investment, the financial instrument shall be evaluated at its current value of the calculated cash flows. All changes in the transition amount of the investment shall be accounted in the Income statement.

The financial assets, held for trading shall be such assets, which have been acquired with the purpose of receiving of profit as a result of short term fluctuations in the price or in the dealers' marge. The derivative financial assets, unless specifically separated and the effective hedging instruments shall be classified as held for trading.

The financial assets held for trading shall be recognized initially at their prime cost, which is the just amount of the paid opposite compensation. After the initial recognition, the financial instruments of that category shall be evaluated at their just amount, except for those, for which such cannot be duly determined, including due to lack of enough rates and/or transactions on active markets.

Financial assets at disposal for sale shall be those financial assets, which are not credits and receivables, incurred in the enterprise, investments, held until maturity or financial assets, held for trading. The financial assets of this category shall be subsequently evaluated at their just amount, except for those, for which such cannot be duly determined, including due to lack of enough rates and/or transactions on active markets.

Credits and receivables, incurred initially in the Company are financial assets, created by the enterprise through direct providing of money, goods and services of a certain debtor. The credits and the receivables shall be subsequently evaluated at their depreciation value through the effective interest method, decreased by the amount of the devaluation.

The commercial receivables shall be devaluated when there is objective evidence that the Company shall not be in a situation to collect the amounts due to it in accordance with the original terms of the transaction.

## **Capital**

The share capital of the Company reflects the nominal value of the issued shares.

## **Financial liabilities**

The financial liabilities shall be recognized in case of a contractual obligation for payment of monies or other financial asset to other enterprise or a contractual

obligation for exchange of financial instruments with other enterprise upon potentially unfavourable conditions.

All costs, related to interests shall be recognized as financial costs in the Income statement.

The commercial liabilities shall be recognised initially at their nominal value and subsequently shall be evaluated at their depreciation value, decreased by payments for settlement of the obligation.

The dividends, payable to the shareholders of the Company shall be recognised when the dividends are approved by the General meeting of the shareholders.

### **Other provisions, conditional assets and conditional liabilities**

The provisions, representing current liabilities of the Company, deriving of past events, the settlement of which is expected to arise a necessity of outgoing cash flow of resources, shall be recognized as liabilities for the Company. The provisions shall be recognised when the following conditions have been fulfilled:

- the company has current liabilities as a result of past events;
- it is possible for the settlement of the liability to be necessary a resources flow in order the liability to be settled;
- there might be made a reliable evaluation of the amount of the liability;

The amount recognised as a provision, represents the best approximate value of the outgoing cash flows of resources, necessary for the settlement of the present liability as at the date of the balance. Upon determination of that best approximate value the Company shall take into consideration the risks and the stage of uncertainty, accompanying more of the events and circumstances, as well as the effect of the change of the amount of the monies during the time, when they have had a significant effect.

The provisions are reviewed as at any balance date and their amount shall be corrected so that it reflects the best approximate value as at the date of the balance. If it is no longer probable that there will be necessary an outgoing resource flow for settlement of the liability, then the provision shall be written off.

The Company shall not recognise conditional assets, since their recognition might result in the recognition as an income, which might never be realised.

## **3. EXPLANATIONS TO THE INTERMEDIATE FINANCIAL STATEMENTS**

3.1. As at 30<sup>th</sup> September 2006 the Company has accumulated costs for acquisition of FTA at the amount of BGN 28,765. The costs are for:

- acquired right of construction and investment costs for construction of a hotel in the city of Bansko, area "St. Ivan" – BGN 11,701 thousand.
- investment costs for construction of villas with apartments in the city of Bansko, area "St. Ivan" – BGN 3,982 thousand.
- investment costs for construction of villas with apartments in the city of Sozopol, area "St. Marina" – BGN 12,586 thousand.
- investment costs for acquisition of real estates in the village of Chernomoretz – BGN 496 thousand.

3.2. As at 30<sup>th</sup> September 2006 the Company owns investment estates – apartments and ateliers in the city of Sozopol, area “St. Marina” – with just amount of BGN 2,585 thousand. The incomes of their revaluation are at the amount of BGN 434 thousand, represented as other incomes in the Income statement.

3.3. The amount of BGN 2,285 thousand, represented as an uncompleted procedure represents:

- acquired right of construction, real estates with stage of completion – rough construction and investment costs for construction of villa buildings in “Santa Marina” area, the city of Sozopol – BGN 1,967 thousand.
- investment costs for development of real estates in the area “St. Ivan” the city of. Bansko – BGN 318 thousand.

The costs for the development of real estates, represented as uncompleted procedure shall be for estates, for which there are signed preliminary sale agreements.

Costs for development of real estates as at 31<sup>st</sup> December 2006 at the amount of BGN 450 thousand are re-classified from “Uncompleted procedure” into “Costs for acquisition of FTA” in the assets of the balance.

3.4. Apartments and ateliers in the city of Sozopol, area “St. Marina” for which there are signed preliminary sale agreements at the amount of BGN 1,306 thousand are represented as “Other short term assets’ in the balance.

3.5. The monies of the Company as at 30<sup>th</sup> September 2006 are at the amount of BGN 26,505, distributed as follows:

Cash under bank accounts and term deposits	BGN 26,476 thousand
- incl. under collective account	
Cash in hand	BGN 29 thousand

3.6. The registered share capital of “FairPlay Properties” REIT as at 30<sup>th</sup> September 2006 is at the amount of BGN 50,700,000 (fifty million seven hundred thousand), distributed into 50,700,000 (fifty million seven hundred thousand) ordinary paperless, voting shares, each with nominal value of BGN 1 (one). All issued shares are entirely paid in cash.

“FairPlay Properties” REIT, does not possess any own shares.

“FairPlay Properties” REIT, does not have any subsidiaries.

3.7. The costs related to the employees (managing and administrative) include salaries and fees under management agreements and social security contributions.

The liabilities of the Company for the employees as at 30<sup>th</sup> September 2006 are at the amount of BGN 10 thousand and to social security enterprises – BGN 1 thousand.

3.8. Until 30<sup>th</sup> September 2006 there have been effected the following related parties transactions:

- The Company has acquired from “Santa Marina” JSCo. real estates in a stage of completion “rough construction”, construction-assembly works and commission fees at a total amount of BGN 17,914 thousand (VAT excluded)

- The Company has acquired from "Ivan Rilski Properties" JSCo. a right to construction and construction-assembly works at a total amount of BGN 15,957 thousand (VAT excluded)
- The Company has rented a real estate from "FairPlay International" JSCo. as the amount of the service up to 30<sup>th</sup> September 2006 amounts to BGN 13 thousand (VAT excluded)

The related parties transactions are made under just market amounts.  
The unsettled balances with related parties as at 30<sup>th</sup> September 2006.

Liabilities to:

- "Santa Marina" – BGN 845 thousand.
- "Ivan Rilski Properties" OOD, BGN 1,830 thousand.
- "FairPlay International" – BGN 1 thousand.

Receivables for paid in advance investment costs under contract, invoiced in October 2006 from:

- "Santa Marina" – BGN 4,066 thousand.

3.9. on 5<sup>th</sup> July 2006 the Company has been granted a financial credit by "Economic and Investment Bank" JSCo. at the amount of EUR 3,000,000 with a term of repayment of 24 months and a grace period – 6 months.

On 14<sup>th</sup> August 2006 the Company issues a bonds loan with nominal value of the bonds of EUR 4 million, with interest payments at 6 months and a maturity date for principal amount payment – 15<sup>th</sup> August 2006. The annual interest rate is at the amount of the 6-months Euribor + 4% but not less than 6.75%. The bonds have been sold at their nominal value as the costs for the issuance are at the amount of BGN 51 thousand. As at 30<sup>th</sup> September 2006 the accrued interests under the bonds loan are at the amount of BGN 74 thousand, whereas BGN 72 thousand have been specified as other short-term liabilities and BGN 2 thousand (depreciation of the costs of the issue) – in increase of the depreciated value of the loan.

3.10. As at the date of the intermediate financial statements there are no distinguishable conditional assets, the non announcement of which would interfere the true and the fair presentation of the material and financial status of the Company.

As conditional liabilities as at 30<sup>th</sup> September 2006 there shall be announced the securities under the received loans:

- under the credit from "EI Bank" JSCo. – BGN 13,904 thousand.
- under the bonds loan – real estates - BGN 2,910 thousand.

Date: 24<sup>th</sup> October 2006

Prepared:

Manager: