Q VARA

Consolidated Accounts of First 6 Months of 2008

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REQUISITE INFORMATION OF Q VARA AS

Start of financial year:	January 1, 2008
End of financial year:	June 30, 2008
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Main activities:	Real estate development (EMTAK: 41101)
	Construction (EMTAK: 41201)
	Real estate management (EMTAK: 68321)
Council:	Ivo Lillepea, Jürgen Järvik, Tanel Peeters;
Management Board:	Meelis Šokman, Alo Lillepea;
Auditor:	Ernst & Young Baltic AS.

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Important Financial Indicators

Income Statement

(in thousands)	6k 2008 EEK	6k 2007 EEK	12k 2007 EEK	6k 2008 EUR	6k 2007 EUR	12k 2007 EUR
Operating revenues	42 394	133 693	97 973	2 709	8 545	6 262
Sales revenues	41 813	57 109	84 166	2 672	3 650	5 379
Operating profit (loss)	-8 166	53 232	-78 755	-552	3 402	-5 035
Net profit (loss)	-20 278	36 961	-81 153	-1 296	2 362	-5 189
Net profit (-loss) attributable to the shareholders of the parent company	-19 705	8 578	-73 536	-1 259	548	-4 701

Balance Sheet

(in thousands)	30.06.2008 EEK	30.06.2007 EEK	31.12.2007 EEK	31.06.2008 EUR	31.06.2007 EUR	31.12.2007 EUR
Total assets	791 578	869 229	732 378	50 591	55 554	46 808
Total liabilities	639 674*	532 381	562 509	40 883*	34 025	35 951
Total equity capital	151 904**	336 848	169 869	9 708**	21 529	10 857
Equity capital of the parent company	101 645***	263 281	120 667	6 496***	16 827	7 712
Minority share	50 259	73 567	49 202	3 212	4 702	3 145

** With subordinated liability granted by OÜ Q Capital, which on July 27th 2008 was converted into equity capital. Without the subordinated liability the sum is 553 674 thousand kroons (35 386 thousand euros).*

*** Without the subordinated liability converted into equity capital. With subordinated liability the sum is 237 904 thousand kroons (15 205 thousand euros).*

**** Without the subordinated liability converted into equity capital. With subordinated liability the sum is 187 645 thousand kroons (11 993 thousand euros).*

Proportions

	31.06.2008	31.06.2007	31.12.2007
Operating profit margin	-19.3%	39.8%	-80.38%
Net profit margin	-47.8%	27.6%	-80.11%
Return on assets	-1.0%	6.1%	-10.57%
Return on equity	-8,3%	11.0%	-33.65%
Equity share of the total assets	30.1%*	38.6%	23.19%
The parent company's shareholder's equity share of the assets	1.82	2.1	1.22

** With subordinated liability invested by shareholders*

<u>Explanations of ratios</u>

✓Operating profit margin = Operating profit / total operating revenue

✓Net profit margin = Net profit of the shareholders of the parent company / total operating revenue

✓Return on assets = Operating profit / annual average total assets

✓Return on equity = Profit before minority share / annual average equity

✓Equity share of the total assets = Total equity / total assets

✓The parent company's shareholders equity share of the assets = Equity capital without minority share / total assets

✓Current ratio = Current assets / Current liabilities

MAIN FACTORS INFLUENCING THE RESULTS OF THE FIRST HALF OF 2008

Additional Equity Investment by Shareholders

According to Q Vara bond investors' vote that ended on April 7, 2008 the investors granted Q Vara time until June 30, 2008 to bring its equity share in line with the bond issue terms. In order to secure the required equity level in Q Vara, OÜ SLProductions, shareholder of Q Vara, issued an assurance letter on March 24, 2008 according to which it confirmed its readiness to invest additional capital into Q Vara if needed.

On June 25th 2008, Q Vara and the subsidiary of OÜ SLProductions, OÜ Q Capital, entered into loan agreement, pursuant to which OÜ Q Capital gave AS Q Vara a loan of 86,000 thousand kroons subordinated to all the liabilities of Q Vara. The additional capital shall be used for paying current liabilities and for creating a liquidity buffer. After the signing of the loan agreement, the process of converting the subordinated loan into equity capital was initiated. On July 27th 2008 the conversion was entered in the commercial registry and the share capital of AS Q Vara was increased by 8 600 thousand kroons up to 190 111 thousand kroons. This means that by the moment of issuing this report, the volume of liabilities was 86 000 thousand kroons smaller and the equity capital bigger by the same amount compared to the balance sheet of June 30th, 2008.

According to the decision of Q Vara AS shareholders, OÜ Q Capital was issued 860 thousand new shares with nominal value of 10 kroons and issue premium of 90 kroons per share, so altogether the share capital of Q Vara increased by 8 600 thousand kroons and the issue premium increased by 77 400 thousand kroons. As a result of the transaction, OÜ Q Capital acquired the total of 4.5% of the share capital of AS Q Vara.

After the increase of equity capital Q Vara has fulfilled the bond issue terms' requirement to keep the company's equity share at 30% of the total assets. But as the subordinated loan was converted into equity capital only in July, the balance sheet of the first 6 months reflects the sum invested by shareholders as subordinated loan. Thus, by analysing the balance sheet, the subordinated loan must be added to the equity capital when calculating the equity share of the total assets.

Reduced operating expenses

The reduction of operating expenses that was started by Q Vara in the second half of 2007 saw the first results in the first half of 2008. The total amount of Q Vara's development and general expenses (in Income statement: direct development expenses, general development expenses, marketing expenses, administrative expenses and other operating expenses) was 12 066 thousand kroons. In 2007, the average half year amount of the same expenses was 25 103 thousand kroons so the operating expenses were reduced by 51.9% in the first half of 2008. The decrease in expenditure resulted from reduced number of employees and from decrease of various operating costs in Estonia and Latvia. At the same time, in Lithuania, where the team is being built up the development and general expenses have increased compared to the same period of the previous year so in percentage terms the decrease of operating expenses in Estonia and Latvia was higher than the Group average.

Sale of the Jonathan Project

After the completion of the investors' due diligence, on March 28, 2008 SIA Quality Nami, that belongs to the Group, entered into a sale-purchase contract with SIA Jonathan, according to which SIA Quality Nami sells the property (28,443 square meters), located on Maskavas street in Riga, together with the Jonathan development project. SIA Jonathan represents real estate investors from the Netherlands. The agreed sale price is 186,976 thousand kroons.

The prerequisites for the final enforcement of the transaction are a positive technical project audit and a positive court's decision concerning the dispute about the detailed plan of the property (hereinafter "prerequisites"). The ongoing court proceeding was initiated by the Latvian Seimas, who turned to the Constitutional Court and brought legal action against the Riga City Government for the approval of the detailed plan of the registered immovable at Maskavas street 264, Riga . The abovementioned litigation takes place between third persons. When applying for the detailed plan, SIA Quality Nami has followed all the laws effective in the Republic of Latvia and achieved all approvals necessary for enacting the detailed plan. According to the information available today and the assessments given by lawyers, the management board of Q Vara estimates the length of the court proceeding to be approximately six months, after which the final formulation of the sale transaction shall immediately take place.

The transaction amount shall accrue to the seller by instalments. The first instalment in the amount of 140,819 thousand kroons shall be paid within five days after fulfilling the Prerequisites. The second instalment in the amount of 30,511 thousand kroons shall be paid within two months after fulfilling the Prerequisites. The third instalment in the amount of 15,665 thousand kroons shall be paid within five days after submitting the building permit of the project to the purchaser.

In the second quarter, the design of the building was finished and the auditing of the technical project was initiated. The audit of the technical project should be finished and the court dispute should conclude in the third quarter 2008.

<u>Capital raising for Terminal No. 11 Project</u>

In the last quarter of 2007, AS Q Vara (hereinafter as "Q Vara") started negotiations with a German company HIH Global Invest GmbH (hereinafter as "HIH") for raising additional equity to finance the development of Terminal No. 11 project (Q Vara' and HIH are hereinafter collectively referred to as "Parties"). HIH Global Invest GmbH belongs to M. M. Warburg & CO KGaA Group, which is the second largest privately held bank in Germany. HIH operates in setting up of investment funds and raising capital from German investors.

As a result of the negotiations, the Parties signed a letter of intent on March 3rd 2008, with an objective to regulate the Parties' intention to cooperate on the Terminal No. 11 project and to confirm the Parties' will to finalise the transaction by April 7th 2008 (the term of validity of the letter of intent was prescribed to be May 7th 2008). At the start of April, the Parties agreed to extend the negotiation period until the end of the term of validity of the letter of intent. By the end of April, the project audit by HIH was finished and the negotiations for shareholders' agreement were continued. Due to a very thorough analysis carried out by the investors, the analysis has so far required more time than planned. According to Q Vara's managements' current estimations the transaction shall be finalized in August-September of 2008.

<u>Group's Liquidity</u>

As a result of the delayed capital raising transaction for the development of Terminal No. 11 project, a subsidiary of Q Vara, OÜ Q Ehitus (whose current largest project is Terminal No. 11) experienced some payment delays to the Tax Board and suppliers in the second quarter of 2008. Namely, the management of Q Vara estimated that the aforesaid negotiations would be finished in spring, and proceeding from this prognosis, the development activities of Terminal No. 11 were continued. Due to a very thorough analysis by the investors, the final investment was not made by the time several payments were due that caused payment delays, which could not have been eliminated immediately from other cash flows. Regardless of the delays in the capital raising process, the payables shall be covered in the beginning of the third quarter 2008, as the necessary funds were obtained from the additional resources invested in the company's shareholders.

EXPECTATIONS FOR SECOND HALF OF 2008

In addition to increasing the share capital in July, the aim for the second half of 2008 is to finalize the capital raising transaction for Terminal No.11 project and to finalize the sales transaction of Jonathan project, as a result of which the volume of high yield liabilities shall be significantly reduced (through that also financial expenses will be reduced) and the liquidity of company will be increased. As a result the equity share shall increase up to 40% of total assets by the end of 2008. Also considering the already done corrections in Q Vara's balance sheet (asset discounts done in 2007, due to which the assets are recorded at today's actual market price), the situation of Q Vara will be strong by the end of 2008, and the company is ready to undertake new investments.

As the redemption deadline of Q Vara's bonds arrives in the first half of January 2009, the management of the company has already started with activities needed to redeem the bonds. More information about the redemption shall be provided by Q Vara through stock exchange information system during the second half of 2008.

ORGANISATION AND PEOPLE

PERSONNEL

At the end of the second quarter of 2008, the number of employees of Q Vara Group was 84. Compared the first quarter, the number of employees has increased by 6 people. 4 new people were recruited to the Group's construction companies and one to UAB Q Vara in Lithuania. At Q Vara one employment contract was signed with a person whose previous cooperation was based on the contract of services. The number of Group employees by companies and countries is presented in the following table (the number of people as at the end of 2007 is in the brackets).

	Q Vara	Q Design	Q Estate	Q Vara	Q Ehitus	Q Buve	Q Haldus	Total
Estonia	11 (11)	4 (4)			36 (36)		5 (4)	56 (55)
Latvia			8 (11)			15 (16)		23 (27)
Lithuania				5 (5)				5 (5)
Total								**84 (87)**

CHANGES IN GROUP MANAGEMENT

Several important changes have been made in the management of Q Vara Group within the first four months of the year 2008. In accordance with resolution, adopted by the shareholders of SIA Q Estate and SIA Zebru on April 2, 2008, Sarmite Sazoncika was withdrawn from the management boards of the companies. Alo Lillepea was elected as a new member of the management board in both companies.

In accordance with the resolution, adopted by the supervisory board of AS Q Vara on April 23, 2008, Andre Poopuu was withdrawn from the management board of AS Q Vara. Andre Poopuu was also withdrawn from the management boards of OÜ Q Haldus and AS Maakri City.

On April 25, 2008, the general meeting of shareholders of Q Vara AS decided to withdraw Alo Lillepea from the position of chairman of the supervisory board of AS Q Vara and elected Tanel Peeters to be a new member of the supervisory board. Tanel Peeters is a member of the management board of OÜ Q Capital, a member of the supervisory board of AS Väätsa Agro and a member of the supervisory board of AS Fotoluks at the present moment. Tanel Peeters was a member of the management board of Q Vara during the years 2005-2006. The meeting of the supervisory board of Q Vara, which took place on the same day (April 25, 2008), elected Ivo Lillepea as a new chairman of the supervisory board and Alo Lillepea as a new member of the management board. Thus, as at the end of April, Meelis Šokman (chairman of the management board) and Alo Lillepea belong to the management board of Q Vara and Ivo Lillepea (chairman of the supervisory board), Tanel Peeters and Jürgen Järvik belong to the supervisory board of Q Vara.

Overview of Development Projects

Kirsiaia Triple Houses

Location: Viimsi rural municipality, Estonia | Segment: Residential, high | Development: Row houses | Period: 2006-2007 | Sellable space: 3,305 m^2

Introduction: Kirsiaed ("Cherry-tree garden") is a residential development project, in which a family friendly and enjoyable living environment is created through combination of architecture, landscape relief and well-considered greenery. Position towards the sun and privacy of the residents were considered as the main starting points upon layout of houses on the plots of land. The main features of the units are brightness, practical and well-considered interior planning and possibility to enjoy the beauty of nature from one's balcony, as well as the magnificent view of the silhouette of Tallinn. One may choose a unit with a completed high quality finishing or a unit that still needs to be designed.

Sales: in the second quarter of 2008, two units were sold. As at the end of the first quarter of 2008, a total of 19 units(out of 30) were sold.

Kirsiaia krundid

Location: Viimsi rural municipality, Estonia | Segment: Residential, high | Development: Residential land plots | Period: 2006-2007 |

Introduction: Kirsiaed residential plot project is one of the few plot developments in Viimsi that has all utility lines, connections, asphalt road and street lighting. Partial greenery has been planted to the plots already today – fir-trees, thorn bush hedges, rowan-trees and low cherry-trees. The plots are situated on a hilly terrain, from with a nice view on the Tallinn-panorama.

Sales: in the second quarter of 2008 no new land plot sales transactions were concluded. According to Q Vara's previous experience the sale of plots is seasonal and more active interest emerges rather in winter and early spring, when the plots are purchased in order to start building in spring.

Taevasmaa

Location: Harku rural municipality, Estonia | Segment: Residential, medium | Development: Gallery- and row houses | Period: 2007-2009 |

Sellable space: 32,137 m^2

Introduction: The name Taevasmaa (Skyland) comes from two architecturally very different parts of the project (row houses – sky ('taevas' in Estonian) and gallery houses – land ('maa' in Estonian), which, as joined together, make an interesting and aesthetically pleasing living environment. The residential area is situated near Tabasalu and is already today highly valued for the surrounding nature and privacy. Q Vara is developing gallery apartments and row houses with low acquisition costs and low monthly expenses there. In creating the living areas, attention is paid to a HEALTHY and INTEGRAL way of life, which is supported by houses with few apartments, surrounding sporting facilities, playgrounds, greeneries, play-parks and a kindergarten. Ergonomics and practicality are considered also to be very important details throughout the development (entrance-room closets, kitchen furniture etc).

There were no new developments as to the Taevasmaa project in the first half of 2008.

Terminal No. 11

Location: Rae rural municipality, Estonia | Segment: Commercial, medium | Development: Warehouses | Period: 2007-2009 | Sellable space:

42,000 m^2

Introduction: The warehouses, developed in the framework of the project, are aimed for small and medium-sized companies, for whom the optimal sized storage space, common location of the storage and office space, very comfortable working conditions of the employees and efficient storage management are crucial. The project is also focused on minimizing the monthly loan repayments and administration costs for clients.

Development: The construction of the first building of the Terminal No. 11 warehouse park reached its final stage by the end of the first quarter of 2008 and indoor works were started. The interior works continued also in the second quarter. Due to the delay of the additional investments, the completion of certain construction works was also slowed so the completion of communication lines and the first warehouse is planned into the third quarter.

Sales: by the end of the second quarter of 2008, two warehouse units had been sold. At the same time, it has to be taken into consideration that since it is a large investment for small- and medium-size enterprises, the process of negotiations takes relatively long. Many clients have been interested also in the next warehouse buildings, which instead of the present ca. 500 m^2 units have offer units in the size of ca. 300 m^2. As soon as the construction of the next warehouses has been started, preliminary contracts with potential clients can be entered into.

Due to the initiation of negotiations with new investors, the sale of plots was temporarily suspended at the end of 2007, as the interest of co-investors is the uniform development of the entire area into warehouse premises. Thus, in the first quarter of 2008., no new plot sales transactions were concluded. The transaction to raise capital for the development of this project is described in section “Main factors influencing the results of the first half of 2008”.

MAAKRI

Location: Tallinn, Estonia | Segment: Residential / commercial, high | Development: high-rise buildings | Period: - | Capacity: -

Introduction: Through an associate company (Stansfield OÜ), Q Vara has two immovable properties in the centre of Tallinn, in the so-called Maakri quarter. According to the preliminary plans of the city of Tallinn, the area is going to be a district with high-rise buildings that accommodate residential as well as commercial spaces.

Development: At the start of the year, Tallinn City Government approved the general plan for high-rise buildings in Tallinn, establishing the maximum height of the buildings in Maakri district at 140 meters. As a negative piece of news, the construction density was also fixed for the district, which is somewhat lower than expected. On these assumptions the project team has started the preparations for the architectural competition of the project. In the third quarter, AS Maakri City plans to launch the second stage of the architectural competition. The architectural competition shall be organised in cooperation with the Union of Estonian Architects.

SILUKALNI

Location: Pinki village, Latvia | Segment: Residential, medium | Development: Double and row houses | Period: 2005-2007 |

Sellable space: 8,525 m^2

Introduction: Silukalni residential area is located next to a pine forest, which together with its suburban location make a perfect home for a families. Double and row houses include 72 units.

Development: Although at the end of the first quarter, the management board of Q Vara estimated the completion of six units, one row house with three apartments was completed and handed over in the second quarter. However, the second row house with three apartments is almost finished and shall be handed over in the third quarter. Furthermore, the construction of another three houses is under the way, two of which are covered with sale contracts. Units sold today with new contracts already produce positive margin for the project (in the case of apartments sold in 2005 and completed now, the margin is 0 (zero), as the loss incurred by the difference between construction price and sales price initially agreed with the clients was written off in 2007).

Sales: In addition to units already sold in the past and to be given over this year, the yet to be completed development arouse new interest among clients, and in April 2008, two new contracts were signed with customers. As a decent demand is visible at the current price level, the construction and marketing activities will be activated in the coming periods.

365

Location: Jurmala, Latvia | Segment: Residential, high | Development: Apartment building | Period: 2006-2009 | Sellable space: 2,730 m^2

Introduction: Stylish apartment building, situated in a prestigious Jurmala beach town is designed by Latvian top architectural company SIA Sīlis, Zābers & Klava. The building includes thirty exclusive apartments, the net space of which ranges between 60 to 160 m^2.

As in the second quarter the sales pace of the project was lagging behind the forecasts, the construction process was also slowed down in order to avoid excessive use of capital in uncertain market situation. At the end of the second quarter, most of the facades were completed and indoor operations continued.

JONATHAN

Location: Riga, Latvia | Segment: Residential, medium | Development: Apartment building | Period: 2007-2011 | Sellable space: 30,575 m^2

Introduction: Jonathan is an apartment building that is situated in Riga, on the banks of River Daugava, a 15 minutes drive from the city centre of Riga. The project's main attraction is a pond with piers in the courtyard, which has a direct connecting canal with the river.

Development: In the second quarter of 2008, the technical plans of the building were finished and the auditing of technical project started. After the completion of the technical project the development process continued with applying for a building permit (also see Chapter " Main factors influencing the results of the first half of 2008").

TROPHY

Location: Vilnius, Lithuania | Segment: Residential, high | Development: Apartment building | Period: 2007-2009 | Sellable space: 2,340 m^2

Introduction: In the framework of the Trophy project, Q Vara Group is going to develop a 4-storey apartment building, with a total area of 2,300 m^2. The property is located in a prestigious green area in Vilnius called Zverynas, right next to the centre of Vilnius. The apartments with a high quality finishing are targeted to upper-middle class customers and the size of the apartments ranges from 55 to 120 m^2.

Development: In the first half of the second quarter of 2008, the construction of Trophy project was started. During the quarter the earth works and the construction of the pile foundation were finished. The construction of underground parking lot was also started.

Sales: The booking contracts signed in the first quarter of 2008 were formalised into sales contracts in the second quarter, and the clients started to pay in the first instalments. By the end of the second quarter, three new contracts under the law of obligations were entered into, after which 9 apartments of 31 have been sold. In addition, booking contracts have been entered into regarding two apartments, so altogether one third of all apartments have been covered with client contracts.

Financial Results

Operating revenue

In the first six months of 2008. Q Vara's consolidated operating revenue was 42,394 thousand kroons. In the reference period of 2007, the operating revenue amounted to 133 693 thousand kroons (14,101 thousand euros). The reduced operating income amount resulted from the fact that there were no property investment revaluations in the first half of 2008. Of the operating revenue, the realized sales revenue amounted to 41,813 thousand kroons (2007 6m: 57,109 thousand kroons) and other operating revenues 518 thousand kroons (2007 6m: 3,097 thousand kroons). In the first half of 2007 73,487 thousand kroons of property revaluation income was added to the above mentioned amounts.

Compared to the first half of 2007 the operating revenues decreased by 68.3% and sales revenues decreased by 26.8% in the first half of 2008. The considerably lower operating revenues resulted from the fact that in 2008 no investment property revaluations were made. Compared to the forecasts made at the end of 2007, the development projects' sales revenues in Estonia and Latvia remained lower than expected, whereas in Lithuania successful sale of apartments continued (the sales revenues will be recorded after the completion of the project, when the apartments are handed to the clients and full sales price amounts will be paid in) and three new sales contracts were entered into, after one third of the apartments in the 31 apartment building has been sold.

Operating expenses

The reduction of operating expenses that was started by Q Vara in the second half of 2007 saw the first results in the first half of 2008. The total amount of Q Vara's development and general expenses (in Income statement: direct development expenses, general development expenses, marketing expenses, administrative expenses and other operating expenses) was 12 066 thousand kroons. In 2007, the average half year amount of the same expenses was 25 103 thousand kroons so the operating expenses were reduced by 51.9% in the first half of 2008. The decrease in expenditure resulted from reduced number of employees and from decrease of various operating costs in Estonia and Latvia. At the same time, in Lithuania, where the team is being built up the development and general expenses have increased compared to the same period of the previous year so in percentage terms the decrease of operating expenses in Estonia and Latvia was higher than the Group average.

Operating Profit

The operating loss of the first half of 2008 was 8 166 thousand kroons. In the first half of 2007 the Company's net profit was 53 232 thousand kroons. The exchange of profit for loss resulted from the fact that no investment property revaluations were made in 2008, whereas the sum of the revaluations thereof for the first half of 2007 was 73 487 thousand kroons. Not considering the revaluations, the operating loss of the first half of 2008 was 59.7% lower than in the first half of 2007.

To reach a positive operating result, the operating expenses shall be further reduced in the coming quarters and the structure of the Group shall be made as thin as possible. Even more important improvement is estimated to result from the growth of sales turnover and gross profit, as from the third quarter 2008, in addition to Kirsiaia and Silukalni projects also Terminal No. 11 and 365 projects reach the sales phase (the expected earlier completion of Terminal No. 11 warehouses in the second quarter was delayed into the third quarter due to the delay of additional investments).

Financial Income and Expenses

Net financial result of the first half of 2008 was -12 112 thousand kroons. Interest costs comprised 14 480 thousand kroons of this amount. The average interest cost amount for six months in 2007 was 20 334 thousand kroons which means that the interest expenses were 28,8% lower in the first half of 2008. The decline of interest expenses resulted from the partial return of high yield loans in the second half of 2007. According to the estimates presented in earlier reports, the financial expenditure of Q Vara Group shall decrease considerably in 2008, and more important changes thereof will most likely occur in the third quarter.

Net Result

Q Vara Group's consolidated net loss of the first half of 2008 was 20 278 thousand kroons, of which the 19 705 thousand kroons is attributable to the parent company's shareholders. In the comparable period of 2007, the Group's net profit was 36 961 thousand kroons, which also entailed the revaluations of investment properties in the amount of 73 487 thousand kroons.

Loans

The total amount of short- and long-term loans and issued bonds was 435 507 thousand kroons at the end of the first half of 2008. In end same period of 2007, the amount of similar liabilities was 381 383 thousand kroons – and as at the end of 2007 477 587 thousand kroons. The increased loan amount resulted mainly from the increased development projects' construction loan amounts . The presented loan amounts do not include the subordinated liability granted by OÜ Q Capital in the amount of 86 000 thousand kroons, which as at 27.07.2008 was converted into equity.

Balance Sheet Structure

As at the end of the first half of 2008 the amount of equity of Q Vara was 151 904 thousand kroons, but adding the subordinated loan invested in the company by OÜ Q Capital in the amount of 86 000 thousand kroons (which on July 27th 2008 was converted into equity) the total equity capital was 237 904 thousand kroons. The volume of assets as at the same time was 791 578 thousand kroons, so the shareholdrs' equity constituted 30.1% of total assets (with the subordinated liability invested by OÜ Q Capital). Q Vara continues its efforts towards increasing the equity as expressed in earlier reports, of which capital raising for Terminal No. 11 project and reducing the loans with the funds collected from the sale of Jonathan project are after the additional equity investment made by the owners of Q Vara most important.

INTERIM ACCOUNTS

MANAGEMENT BOARD'S CONFIRMATION TO THE CONSOLIDATED ANNUAL ACCOUNTS

The management board of the parent company Q Vara confirms the correctness and completeness of preparation of the consolidated six month report of Q Vara for the year 2008, presented on pages 15 to 27.

The management board confirms:

1. The interim accounts are prepared and presented in accordance with the International Financial Reporting Standards as adopted by the European Union;
2. The interim accounts present a true and fair view of the financial position, economic performance and cash flows of the Group;
3. Companies that belong to the Group are continuously active undertakings;

Meelis Šokman	Alo Lillepea
Chairman of the management board	Member of the management board

Consolidated income Statement

(in thousands)	Notes	6m 2008 EEK	6m 2007 EEK	6m 2008 EUR	6m 2007 EUR
Operating revenue					
Sales revenue	2	41 813	57 109	2 672	3 650
Revaluationand sales profit of investment properties		0	73 487	0	4 697
Other income		581	3 097	37	198
Total operating revenue		**42 394**	**133 693**	**2 709**	**8 545**
Operating expenses					
Construction expenses		-38 494	-40 780	-2 460	-2 606
Direct development expenses		-1 316	-14 076	-84	-900
General development expenses		-6 501	-16 966	-415	-1 084
Marketing expenses		-1 799	-3 904	-115	-250
Administrative expenses		-2 314	-1 779	-148	-114
Other expenses		-136	-2 256	-9	-144
Total operating expenses	3	**-50 560**	**-79 761**	**-3 231**	**-5 098**
Operating profit (-loss)		**-8 166**	**53 932**	**-522**	**3 447**
Net financial income and expense					
Interest income		2 676	556	171	36
Interest expenses		-14 480	-17 276	-925	-1 104
Loss from foreign currencies' exchange rate changes		-416		-27	
Other financial income/ expense		108	20	7	1
Total financial income/ expense		**-12 112**	**-16 700**	**-774**	**-1 067**
Profit before tax (-loss)		**-20 278**	**37 232**	**-1 296**	**2 380**
Postponed income tax			-211		-13
Tax on real estate			-60		-4
Net profit for financial year (-loss)		**-20 278**	**36 961**	**-1 296**	**2 362**
Net profit attributable to the owners of the parent company.		-19 705	8 578	-1 259	548
Net profit attributable to minority interests.		-573	28 383	-37	1 814

Consolidated Balance Sheet

(in thousands)	Notes	30.06.2008 EEK	31.12.2007 EEK	30.06.2008 EUR	31.12.2007 EUR
Assets					
Current assets					
Cash and cash equivalents		3 457	11 831	221	756
Investment property for sale	4	181 058	183 102	11 572	11 702
Accounts receivable		24 659	14 802	1 576	947
Short term loan receivables		34 441	30 605	2 201	1 956
Other short term receivables	5	87 557	849	5 596	55
Interest receivable		5 748	3 254	367	208
Prepayments made		12 990	1 509	830	96
Prepaid value-added tax			10 753		687
Real estate to be sold	6	395 647	428 913	25 286	27 413
Total current assets		**745 557**	**685 618**	**47 650**	**43 820**
Non-current assets					
Long-term loan receivables		186	186	12	12
Associated companies	7	31 360	31 339	2 004	2 003
Tangible fixed assets		8 894	9 654	568	617
Intangible assets		5 581	5 581	357	356
Total non-current assets		**46 021**	**46 760**	**2 941**	**2 988**
Total assets		**791 578**	**732 378**	**50 591**	**46 808**

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CONSOLIDATED BALANCE SHEET (CONTINUED)

	Notes	30.06.2008	31.12.2007	30.06.2008	31.12.2007
(in thousands)		EEK	EEK	EUR	EUR
Liabilities and shareholders' equity					
Current liabilities					
Short-term loans	9	322 627	375 861	20 620	24 022
Finance lease liabilities		242	718	15	46
Customers' prepayments		9 816	7 723	627	494
Accounts payable		49 644	34 383	3 173	2 197
Due to employees		3 242	3 186	207	204
Interest payable		14 193	10 952	907	700
Tax payables		3 487	3 398	223	217
Guarantee liabilities		96	159	6	10
Liabilities for construction company clients		6 306	0	403	0
Total current liabilities		**409 653**	**436 380**	**26 182**	**27 890**
Non-current liabilities					
Long-term loans	9	34 647	23 493	2 214	1 502
Other long-term payables		6 862	0	439	0
Bonds issued	10	78 233	78 233	5 000	5 000
Finance lease liabilities		1 471	1 341	94	85
Deferred income tax liabilities		22 808	23 062	1 458	1 474
Total non-current liabilities		**144 021**	**126 129**	**9 205**	**8 061**
Subordinated loan	11	86 000		5 496	
Total liabilities		**639 674**	**562 509**	**40 883**	**35 951**
Shareholders' equity					
Equity capital attributable to the shareholders of the parent company					
Share capital		181 511	181 511	11 601	11 601
Reserves		7 361	7 361	470	470
Unrealized exchange rate differences		-851	126	-54	8
Retained earnings		-86 376	-68 331	-5 520	-4 367
Total equity capital attributable to the shareholders of the parent company		**101 645**	**120 667**	**6 496**	**7 712**
Minority interests		50 259	49 202	3 212	3 145
Total shareholders' equity		**151 904**	**169 869**	**9 708**	**10 857**
Total liabilities and shareholders' equity		**791 578**	**732 378**	**50 591**	**46 808**

Consolidated Cash Flow Statement

(in thousands)	6m 2008 EEK	6m 2007 EEK	6m 2008 EUR	6m 2007 EUR
Cash flow from business operations				
Net profit/loss	-20 278	36 961	-1 296	2 362
Change in the value of company due to merger of companies	0	-2 886	0	-184
Change in assets and liabilities due to exchange rate	0	383	0	1
Change in the fair value of investment properties	0	-72 437	0	-4 653
Reclassification of investment properties into inventories	0	100 256	0	6 408
Changes of reclassification of subsidiary into associated company	-54 741	0	-3 499	0
Profit/ loss from sales of financial investments	0	0	0	0
Depreciation, write-off and price reduction of tangible and intangible fixed assets	760	-649	49	-41
Interest income	-2 676	-939	-171	-60
Interest expenses	14 480	6 873	925	439
Unrealized exchange rate differences	813	0	52	0
Changes in the deferred income tax liability.	0	144	0	9
Changes in current assets and liabilities				
Changes in accounts receivable*	-9 857	-32 918	-630	-2 104
Receivables from client of construction company	6 306	0	403	0
Changes in other short term receivables	-708	-7 130	-45	-456
Changes in prepayments	-11 481	16 156	-734	1 033
Changes in inventories	33 266	-132 734	2 126	-8 483
Changes in customers' prepayments	2 093	2 793	134	179
Changes in accounts payable	15 261	-2 432	975	-155
Changes in tax prepayments and in taxes payable	10 842	7 788	693	498
Changes in due to employees	56	38	4	2
Guarantee liabilities	-63	0	-4	0
Changes in other long-term receivables	6 862	59 723	439	3 817
Total cash flows from operating activities	**-9 065**	**-21 730**	**-579**	**-1 389**
Cash flows from investing activities				
Addition of investment properties from purchased companies	0	-50 430	0	-3 223
Sale of investment	0	26 320	0	1 682
Purchase of fixed assets	0	-4 216	0	-269
Loans granted	-10 192	0	-651	0
Repayments of loans granted	6 356	53 992	406	3 451
Interest collected	182	0	12	0
Total cash flows used in investing activities	**-3 654**	**25 666**	**-234**	**1 640**
Cash flows from financing activities				
Loans raised	27 227	0	1 740	0
Repayments of loans	-11 297	-585	-722	-37
Repayments of finance leases	-346	-1 562	-22	-100
Interest paid	-11 239	0	-718	0
Total cash flows from financing activities	**4 345**	**-2 147**	**278**	**-137**
Total cash flows	**-8 374**	**1 789**	**-535**	**114**
Cash and cash equivalents at the beginning of the period	11 831	1 116	756	71
Cash and cash equivalents at the end of the period	3 457	2 905	221	186
Changes in cash and cash equivalents	**-8 374**	**1 789**	**-535**	**114**

Consolidated Report of Changes in Equity

(*in thousands of EEK*)	Equity belonging to the owners of the parent company						
	Share capital	Mandatory legal reserve	Exchange rate differences	Retained earnings	**Total**	**Minority interests**	**Total**
Balance as of 31/12/2006	**73 511**	**7 361**	**177**	**166 861**	**247 910**	**48 688**	**296 598**
Increase of share capital	160 000	0	0	-160000	**0**	0	**0**
Reduction of share capital	-52 000	0	0	0	**-52 000**	0	**-52 000**
Adjusting retained earnings of the Group *	0	0	0	-56	**-56**	0	**-56**
Exchange rate differences from translation of foreign subsidiaries	0	0	-51	0	**-51**	0	**-51**
Dividends paid	0	0	0	-1600	**-1 600**	0	**-1 600**
Sale of holding to minority shareholders	0	0	0	0	**0**	11 867	**11 867**
Purchase of holding from minority shareholders	0	0	0	0	**0**	-3 736	**-3 736**
Net loss for the year 2007	0	0	0	-73 536	**-73 536**	-7 617	**-81 153**
Balance as of 31/12/2007	**181 511**	**7 361**	**126**	**-68 331**	**120 667**	**49 202**	**169 869**
Turning subsidiary into associated company	0	0	0	1 660	1 660	1 630	3 290
Exchange rate differences from translation of foreign subsidiaries	0	0	-977	0	-977	0	-977
Net loss of the first half of 2008	0	0	0	-19 705	**-19 705**	-573	**-20 278**
Balance as at 30.06.2008	**181 511**	**7 361**	**-851**	**-86 376**	**101 645**	**50 259**	**151 904**

(*In thousands of EUR*)	Equity belonging to the owners of the parent company						
	Share capital	Mandatory legal reserve	Exchange rate differences	Retained earnings	**Total**	**Minority interests**	**Total**
Balance as of 31/12/2006	**4 698**	**470**	**11**	**10 664**	**15 844**	**3 112**	**18 956**
Increase of share capital	10 226	0	0	-10 226	**0**	0	**0**
Reduction of share capital	-3 323	0	0	0	**-3 323**	0	**-3 323**
Adjusting retained earnings of the Group *	0	0	0	-4	**-4**	0	**-4**
Exchange rate differences from translation of foreign subsidiaries	0	0	-3	0	**-3**	0	**-3**
Dividends paid	0	0	0	-102	**-102**	0	**-102**
Sale of holding to minority shareholders	0	0	0	0	**0**	758	**758**
Purchase of holding from minority shareholders	0	0	0	0	**0**	-239	**-239**
Net loss for the year 2007	0	0	0	-4 700	**-4 700**	-487	**-5 187**
Balance as of 31/12/2007	**11 601**	**470**	**8**	**-4 367**	**7 712**	**3 145**	**10 857**
Turning subsidiary into associated company	0	0	0	106	106	104	210
Exchange rate differences from translation of foreign subsidiaries	0	0	-62	0	-62	0	-62
Net loss of the first half of 2008	0	0	0	-1 259	**-1 259**	-37	**-1 296**
Balance as at 30.06.2008	**11 601**	**470**	**-54**	**-5 520**	**6 496**	**3 212**	**9 708**

Notes to Interim Report of Consolidation Group

Note 1. General principles

The consolidated annual accounts of Q Vara and its subsidiaries have been prepared according to the International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union.

In 2007 and in the first half of 2008, the Group comprises the parent company Q Vara AS, subsidiaries Q Estate SIA (Latvia – shareholding 100%), Q Vara UAB (Lithuania – shareholding 100%), Q Haldus OÜ (shareholding - 100%), Q Vara EOOD (Bulgaria – shareholding 100%) and Q Ehitus OÜ (Estonia – shareholding 60%), Merona Group OÜ (Estonia – shareholding 100%) and Multi Metall Kinnisvara OÜ (Estonia – shareholding 100%).

2007 As at the end of the first half of 2008, Q Estate SIA owned Zebru SIA (100%), Q Estate Namu Serviss SIA (100%), Quality Nami SIA (75%) and Q Ehitus OÜ owned Q Büve SIA (100%).

As at the end of the year 2007, Q Estate SIA owned Zebru SIA (100%), Q Estate Namu Serviss SIA (100%), Quality Nami SIA (75%) and Q Flight SIA (50%) and Q Ehitus OÜ-le Q Büve SIA (100%).

The accounting currency of the Group is Estonian kroon (EEK). The Group's companies organize their accounting and prepare financial reporting according to the accounting principles generally accepted in Estonia or in accordance with the local jurisdiction under which the Group's company is operating. The present annual accounts is prepared on the basis of accounting data, which include necessary adjustments and reclassifications, assuring a fair presentation according to the International Financial Reporting Standards as adopted by the European Union.

The initially prepared annual accounts are composed by using effective currencies of the countries of location. By the time of composing the Group's consolidated report, assets and liabilities recorded by using the local currencies of the countries of location, have been recalculated into Estonian kroons in accordance with the current exchange rates of foreign currencies; when revaluating profits-losses, the weighted average rate of the financial year has been used. All the presented amounts are rounded to nearest thousand. The differences caused by revaluation shall be reflected under equity as „Unrealized exchange rate differences". To ensure better informativeness, the annual accounts are also presented in euros, rounded to the nearest thousand. The financial statements are presented in euros based on the financial statements prepared for the current reporting period by using the official rate of the Estonian Central Bank of 15.6466 EEK/EUR.

In some cases, data of the prior reporting period are reclassified to assure comparability of the data with the presentation principles of the current financial year.

The annual accounts have been prepared on the historical basis, except for the fair value revaluation of certain properties and financial instruments.

Bases for consolidation

The consolidated financial report comprises the financial statements of Q Vara and its subsidiaries consolidated line by line as well as the profits of associated companies using the equity method of consolidation. The financial years of all group enterprises coincide with the calendar year and do not differ from the reporting period of the Parent company. The companies use the same accounting principles and estimation criteria.

Subsidiaries

A subsidiary is an entity over which the Parent company has a significant influence or control. Control means the power to determine the financial and operating policies of subsidiaries through shareholding, contract or any other way. Generally, a subsidiary is considered to be under the control of the Parent company, when the Parent company owns, directly or indirectly, more than a half of the voting power in an entity.

The assets, liabilities, revenues, expenses and cash flows of the subsidiaries are consolidated since the date, on which the Group obtained the control and continue to be consolidated until the date when such control ceased.

New subsidiaries are included in the consolidated financial statements using the purchase method of accounting. Accordingly, the consolidated income statement and consolidated cash flow statement include the results and cash flows of new subsidiaries for the period starting from their acquisition date. The net assets of a subsidiary are initially consolidated based on the fair value of the acquisition date. Any difference between the acquisition cost of a business combination and the fair value of the net assets of the investment is considered to be goodwill. Any negative goodwill is recognised as income when incurred; principles for subsequent measuring of the goodwill are pointed out in Note 4.

All intra-group balances, income, expenses, cash flows, and unrealized profits/losses, are eliminated in full.

Minority interests have been presented in separate lines in the consolidated income statement and on the consolidated balance sheet within equity capital. If losses connected with minority interests of the consolidated subsidiary exceed the size of minority interest in the equity capital of the subsidiary, then this loss and all further losses connected with the minority interest will be deducted from majority interest, except in cases when the minority interest has a binding obligation and ability to make additional investments to cover arising losses. If a subsidiary earns profit, this will be reflected as a profit of the majority interest as far as all prior losses of the minority interest, recorded in the reports of majority interests, are covered.

In case, a subsidiary is sold during the financial year, the consolidated income statement includes the profits and losses of the subsidiary until the date of its sale. Any difference between the sale price and the book value of the net assets in the balance sheet of the Group (including goodwill) as at the moment of the selling date shall be considered as profit/ loss from the sale of subsidiary. If as a result of partial sale of subsidiary, the Group's control decreases below 50% in the entity, but if the power over the company does not entirely disappear, then the companies consolidation will be ended as at the selling date of the company and the remaining holdings of the subsidiary's assets, obligations and goodwill will be reflected as associated company, joint venture or other financial assets (in their fair value). The book value of the remaining part of the investment at the selling date will be considered as its new acquisition cost.

As for subsidiaries, which at the moment of acquisition thereof correspond to the criteria of „Non-current assets for sale“, i.e. it is likely to be sold within 12 months as from the moment of its acquisition, the assets of such subsidiary will be reflected in a separate line „Non - current assets for sale“ in the consolidated balance sheet and obligations in a separate line „Obligations connected with fixed assets“ measured either in their fair value, from which the sale expenses are deducted, or book value, depending on, which of them is lower.

Associated companies

An associated company is an entity over which the parent company has a significant influence, but which is not under control of the parent company. Generally, the existence of a significant influence is presupposed in case the Group has 20% to 50% of the voting power in an entity.

Investments in associated companies are included in the consolidated financial statements measured using the equity method of consolidation. According to the equity method, the investment is initially reflected in the acquisition cost, which is adjusted in the following periods according to changes in the owners' equity of the investment. The intra-group unrealized gains are also eliminated according to the size of the holding. Unrealized losses are eliminated, unless the unearned loss has resulted from a decrease in the value of the participating assets. The book value of the investment in an associated company includes goodwill arising from acquisition. In case the holding in an associated company is equal or bigger than the book value, the book value of the investment is decreased until it equals zero and future losses are accounted for as off balance sheet items. Exceptions are the situations where the company has guaranteed or bound to meet the associated company's liabilities – in that case, both the liability and the loss will be recorded. If the parent company has financed the operations of the associated company additionally with borrowings, the relative loan receivable from the associated company will be written-down.

As to associated companies, which at the moment of their acquisition correspond to criteria „Non-current assets for sale“, i.e. they are likely to be sold within 12 months as from the moment of their acquisition, the assets of such associated companies will be reflected in their fair value, from which the sale expenses are deducted or book value, depending on, which of them is lower.

Detailed information about associated companies of Q Vara OÜ can be found in Note 16.

Transactions concerning minority interests

In respect of transactions concerning minority interests (when reflecting acquisition as well as sale), the so-called parent company's conception shall be used. According to the parent company's conception, transactions with minority interests are treated as transactions with third parties that do not belong to the Group. When increasing holding in the subsidiary by purchasing its shares from the minority shareholder, any difference between the acquisition cost and the book value of the purchased holding (net assets of the subsidiary) is considered to be positive goodwill or will be added to profit as a negative goodwill. When selling subsidiaries or associated companies, any difference between the sale price of a subsidiary or associated company and the Group's holding in the assets, obligations and goodwill of a subsidiary or associated company will be considered as profit or loss.

NOTE 2. SEGMENT REPORT

(in thousands of EEK)	**Estonia**	**Latvia**	**Lithuania**	**Bulgaria**	**Internal transactions**	**Total**
Extra-Group sales	27 899	13 914	0	0	0	41 813
Total sales	**27 899**	**13 914**	**0**	**0**	**0**	**41 813**
Extra-Group other operating revenue	531	47	3	0	0	581
Segment’s total operating revenue	**28 430**	**13 961**	**3**	**0**	**0**	**42 394**
Segment's operating expenses	**-45 747**	**-2 333**	**-2 340**	**-140**		**-50 560**
Segment’s operating profit (loss)	**-17 317**	**11 628**	**-2 337**	**-140**	**0**	**-8 166**
Financial income and expenses of the segment	-10 214	-1 872	-26	0	0	-12 112
Unallocated financial income and expenditure	0	0	0	0		
Profit before minority share	**-27 531**	**9 756**	**-2 363**	**-140**	**0**	**-20 278**
Minority share						-573
Net loss of the parent company						**-19 705**
Assets of the segment	**648 667**	**305 453**	**37 119**	**44**	**-199 705**	**791 578**
Liabilities of the segment	**402 681**	**235 225**	**314 442**	**0**	**-390 907**	**561 441**
Unallocated liabilities of the group						**78 233**
Total liabilities						**639 674**
Acquisition of tangible assets in accounting period	0	0	0	0	0	0
Depreciation expense of the accounting period	-440	-200	-53	0	0	-693

(in thousands of EUR)	Estonia	Latvia	Lithuania	Bulgaria	Internal transactions	Total
Extra-Group sales	1 783	889	0	0	0	2 672
Total sales	**1 783**	**889**	**0**	**0**	**0**	**2 672**
Extra-Group other operating revenue	34	3	0	0	0	37
Segment's total operating revenue	**1 817**	**892**	**0**	**0**	**0**	**2 709**
Segment's operating expenses	**-2 924**	**-149**	**-150**	**-9**	**0**	**-3 231**
Segment's operating profit (loss)	**-1 107**	**743**	**-149**	**-9**	**0**	**-522**
	0	0	0	0	0	0
Financial income and expenses of the segment	-653	-120	-2	0	0	-774
Unallocated financial income and expenditure	0	0	0	0	0	0
Profit before minority share	**-1 760**	**624**	**-151**	**-9**	**0**	**-1 296**
Minority share	0	0	0	0	0	-37
Net loss of the parent company	**0**	**0**	**0**	**0**	**0**	**-1 259**
Assets of the segment	**41 457**	**19 522**	**2 372**	**3**	**-12 763**	**50 591**
Liabilities of the segment	**25 736**	**15 034**	**20 097**	**0**	**-24 984**	**35 883**
Unallocated liabilities of the group	**0**	**0**	**0**	**0**	**0**	**5 000**
Total liabilities	**0**	**0**	**0**	**0**	**0**	**40 883**
	0	0	0	0	0	0
Acquisition of tangible assets in accounting period	0	0	0	0	0	0
Depreciation expense of the accounting period	-28	-13	-3	0	0	-44

NOTE 3. OPERATING EXPENSES

(in thousands)	6m 2008 EEK	2007 EEK	6m 2008 EUR	2007 EUR
Operating expenses				
Construction expenses				
Construction and development expenses of real estate	-38 494	-90 766	-2 460	-5 801
Total	**-38 494**	**-90 766**	**-2 460**	**-5 801**
Direct development expenses				
Personnel expenses	-778	-1 055	-50	-67
Social security and other taxes	-300	-346	-19	-22
Transportation expenses	-193	-261	-12	-17
Administrative expenses	-45	-119	-3	-8
Total	**-1 316**	**-1 781**	**-84**	**-114**
General development expenses				
Personnel expenses	-1 431	-6 989	-91	-447
Social security and other taxes	-401	-2 282	-26	-146
Other personnel expenses	0	-1 163	0	-74
Transportation expenses	-292	-1 663	-19	-106
Administrative expenses	-3 305	-13 732	-211	-878
Impairment loss of goodwill	0	-2 669	0	-171
Depreciation expense of tangible and intangible assets	-572	-1 790	-37	-114
Sponsorship	-500	-5 278	-32	-337
Other operating expenses	0	-1 471	0	-95
Total	**-6 501**	**-37 037**	**-415**	**-2 368**
Marketing expenses				
Advertising expenses	-569	-2 050	-36	-130
Personnel expenses	-776	-2 796	-50	-179
Social security and other taxes	-257	-927	-16	-59
Transportation expenses	-177	-495	-11	-32
Administrative expenses	-20	-212	-1	-14
Total	**-1 799**	**-6 480**	**-115**	**-414**
Administrative expenses				
Expenditure related to administrative service	-2 314	-3 100	-148	-198
Total administrative expenses	**-2 314**	**-3 100**	**-148**	**-198**
Revaluation of inventories				
Revaluation of inventories	0	-5 945	0	-380
Total revaluation of inventories	**0**	**-5 945**	**0**	**-380**
Revaluation of investment property				
Revaluation of investment property	0	-27 143	0	-1 735
Total revaluation of investment property	**0**	**-27 143**	**0**	**-1 735**
Other expenses				
Other expenses	-136	-4 476	-9	-286
Total	**-136**	**-4 476**	**-9**	**-286**
Total operating expenses	**-50 560**	**-176 728**	**-3 231**	**-11 296**

NOTE 4. REAL ESTATE INVESTMENT TO BE SOLD

Real estate investment to be sold in the amount of 181 058 thousand kroons (11 572 thousand euros) is in the 2007 annual report of Q Vara recorded as Jonathan's development project in Riga, Latvia. On March 28, 2008, after the positive due diligence results, SIA Quality Nami who belongs to the Group, entered into sale contract with SIA Jonathan, according to which SIA Quality Nami sells registered immovable, which is located on Maskavase street, Riga, (28,443 square meters) together with the Jonathan development project to SIA Jonathan. SIA Jonathan represents real estate investors with the Netherlands' origin. The agreed sale price is 11,950,000 euros.

The prerequisite of final enforcement of the transaction is a positive technical audit and a positive court's decision concerning the dispute about the detailed plan of the plot (hereinafter "prerequisites"). The ongoing court proceeding was initiated by the Latvian Seimas, who turned to the Constitutional Court and brought legal action against the Riga City Government for the approval of the detailed plan of the registered immovable at Maskavase street 264, Riga The abovementioned court dispute takes place between third persons. In the course of applying the subject detailed plan, SIA Quality Nami has followed all laws effective in the Republic of Latvia and achieved all approvals necessary for enacting the detailed plan. According to the information available today and the assessments given by lawyers, the management board of Q Vara estimates the length of the court proceeding to be approximately six months, after which the final formulation of the sale transaction shall immediately take place.

The transaction amount shall be paid to the seller in instalments. The first instalment in the amount of 9,000 thousand euros shall be released during five days after fulfilling the Prerequisites. The second instalment in the amount of 1,950 thousand euros will be released within two months after fulfilling the Prerequisites. The third instalment in the amount of 1,000 thousand euros will be released in five days after providing the building permit of the project to the purchaser.

NOTE 5. OTHER SHORT-TERM RECEIVABLES

	30.06.2008	31.12.2007	30.06.2008	31.12.2007
(in thousands)	EEK	EEK	EUR	EUR
Degree of completeness in construction	0	849	0	55
Receivables according to assignment contract thereof	86 000	0	5 496	0
Other receivables	1 557	0	100	0
Total	**87 557**	**849**	**5 596**	**55**

NOTE 6. REAL ESTATE TO BE SOLD

	30.06.2008	31.12.2007	30.06.2008	31.12.2007
(in thousands)	EEK	EEK	EUR	EUR
Real estate for sale	394 478	426 759	25 212	27 275
Goods for sale	978	999	63	64
Raw materials and supplies	191	687	12	44
Advance payments to suppliers	0	468	0	30
Total	**395 647**	**428 913**	**25 286**	**27 413**

NOTE 7. ASSOCIATED COMPANIES

Associated companies of Q Vara AS

Business name of company	Country of location	Segment	Holding as at 30.06.2008	Holding as at 31.12.2007
Stansfield OÜ	Estonia	Real estate development	50%	50%

Associated companies of Q Estate SIA

Business name of company	Country of location	Segment	Holding as at 30.06.2008	Holding as at 31.12.2007
Q Flight SIA	Latvia	Real estate development	50%	50%

The acquisition cost of related company Q Flight SIA is 1 000 LVL (22 200 EEK) and the holding is recorded in balance sheet at acquisition cost.

NOTE 8. SUBSIDIARIES

Subsidiaries of Q Vara AS

Business name of company	Field of activity	Holding as at 30.06.2008	Holding as at 31.12.2007	Country of location
Q Vara EOOD	Real estate development	100%	-	Bulgaria
Q Vara UAB	Real estate development	100%	100%	Lithuania
Q Estate SIA	Real estate development	90%	85%	Latvia
Q Haldus OÜ	Real estate administration service	100%	100%	Estonia
Q Ehitus OÜ	Construction activity	60%	60%	Estonia

Subsidiaries of Q Estate SIA

Business name of company	Field of activity	Holding as at 30.06.2008	Holding as at 31.12.2007	Country of location
Zebru SIA	Real estate development	100%	100%	Latvia
Q Estate Namu Serviss SIA	Real estate administration service	100%	-	Latvia
Quality Nami SIA	Real estate development	75%	75%	Latvia

Subsidiary of Q Ehituse

Name of company	Field of activity	Holding as at 30.06.2008	Holding as at 31.12.2007	Country of location
Q Buve SIA	Construction activity	100%	100%	Latvia

NOTE 9. LOANS RECEIVED

Short-term loans

30.06.2008	Residual amount		Maturity date	Interest rate	Currency	Guarantee
(in thousands)	EEK	EUR				
Loan from AS Sampo Pank 140906KV	3 755	240	28.09.2008	EURIBOR+1,75%	EUR	Mortgage
Loan from AS Sampo Pank 210606 KV	20 000	1 278	21.10.2008	EURIBOR+2,75%	EUR	Mortgage
Loan from AS Sampo Pank 201005MU*	78 091	4 991	21.06.2009	EURIBOR+1,75%	EUR	Mortgage
Loan from AS Sampo Pank 270406KV1	15 806	1 010	28.10.2008	EURIBOR+1,75%	EUR	Mortgage
DnB Nord Banka (145/06K23)	46 758	2 988	05.10.2008	EURIBOR+2,5%	EUR	Mortgage
DnB Nord Banka (50/05/K00)	21 913	1 400	05.10.2008	EURIBOR+2,5%	EUR	Mortgage
DnB Nord Banka (169/05K23)	83 271	5 322	10.08.2008	EURIBOR+2,5%	EUR	Mortgage
Loans from AS Gild Arbitrage	4 000	256	15.08.2008	60%	EEK	Shares
Loans from AS Gild Arbitrage	47 253	3 020	15.08.2008	30%	EUR	Shares
Loans from related parties	1 780	114	31.12.2008	0-20%	EEK	None
Total	**322 627**	**20 620**				

31.12.2007	Residual amount		Maturity date	Interest rate	Currency	Guarantee
(in thousands)	EEK	EUR				
Loan from AS Sampo Pank 140906KV	4 979	318	28.06.2008	EURIBOR+1,75%	EUR	Mortgage
Loan from AS Sampo Pank 210606 KV	20 000	1 278	21.06.2008	EURIBOR+1,75%	EUR	Mortgage
Loan from AS Sampo Pank 201005MU*	56 778	3 629	21.06.2009	EURIBOR+1,75%	EUR	Mortgage
Loan from AS Sampo Pank 270406KV1	20 398	1 304	28.06.2008	EURIBOR+1,75%	EUR	Mortgage
DnB Nord Banka (145/06K23)	46 955	3 001	5.07.2008	EURIBOR+2,5%	EUR	Mortgage
DnB Nord Banka (50/05/K00)	21 913	1 401	5.07.2008	EURIBOR+2,5%	EUR	Mortgage
DnB Nord Banka (169/05K23)	83 511	5 337	10.08.2008	EURIBOR+2,5%	EUR	Mortgage
DnB Nord Banka (140/05K23)	58 032	3 709	15.12.2008	EURIBOR+1,70%	EUR	Mortgage
AB SEB Vilniaus Banka (1450611011223-08; 06.11.2006)	13 190	843	5.11.2008	LIBOR+1,7%	EUR	Mortgage
AB SEB Vilniaus Banka (1450611011223-08; 11.09.2007)	550	35	10.09.2008	VILIBOR+1,7%	LTL	Mortgage
Loans from AS Gild Arbitrage	2 000	128	31.05.2008	60%	EEK	Shares
Loans from AS Gild Arbitrage	47 253	3 020	31.05.2008	30%	EUR	Shares
Loans from related parties	302	19	31.12.2008	0-20%	EEK	None
Total	**375 861**	**24 022**				

Long-term loans

30.06.2008	Loan balance		Maturity date	Interest rate	Currency	Guarantee
(in thousands)	EEK	EUR				
AB SEB Vilniaus Banka (1450611011223-08; 06.11.2006)	13 964	892	27.04.2011	LIBOR+1,7%	EUR	Mortgage
AB SEB Vilniaus Banka (1450611011223-08; 11.09.2007)	550	35	27.04.2011	VILIBOR+1,7%	LTL	Mortgage
AS DnB Nord Banka Eesti	20 133	1 287	12.02.2009	EURIBOR+1,75%	EUR	Mortgage
Total loans	**34 647**	**2 214**				

31.12.2007	Loan balance		Maturity date	Interest rate	Currency	Guarantee
(in thousands)	EEK	EUR				
Loans from related parties	3 360	215	31.12.2009	0%		
AS DnB Nord Banka Eesti	20 133	1 287	12.02.2009	EURIBOR+1,75%	EUR	Mortgage
Total loans	**23 493**	**1 502**				

NOTE 10. BONDS ISSUED

In January 2006, Q Vara issued bonds in the amount of 78,233 thousand kroons (5,000 thousand euros), that mature in 3 years with a nominal value of 156 thousand kroons (10 thousand euros) ber bond. The bonds are recognised at their nominal price in the balance sheet; their issuing expense in the amount of 1,370 thousand kroons (88 thousand euros) is recognised under expenses in the period of their arousal. The bonds' yield per annum is 11% and these are secured by the guarantee of the Q Vara's parent company OÜ SLProductions. AS Sampo Pank acts as a security agent of the bonds issue. The bonds are listed on OMX Tallinn Stock Exchange since September 19, 2006.

The terms of the bond issue prescribe, in addition to financial liabilities, supplementary liabilities concerning the financial indicators and reporting. According to these conditions, Q Vara is obliged to retain the equity capital share at least at 30% of total assets. Q Vara is also obliged, until the redemption of bonds, to fulfil the following reporting requirements: present consolidated and audited annual report within three (3) months after the end of each financial year and consolidated quarterly report within one month after the end of the respective quarter.

In accordance with clause 9 of the bonds issue terms Q Vara paid interests to the bond owners in the amount of 8,605 thousand kroons (550 thousand euros) in January, 2008, from which the amount of 8,400 thousand kroons (539 thousand euros) was recognised in the income statement for the financial year 2007 and the amount of 205 thousand kroons (13 thousand euros) in the income statement for the financial year 2008. Q Vara paid interests to bond holders in the amount of 8,605 thousand kroons (550 thousand euros) also in January 2007. From the total amount paid in 2007, the amount of 8,367 thousand kroons (535 thousand euros) was recognised in the income statement for the year 2006 and the amount of 238 thousand kroons (15 thousand euros) in the income statement for the year 2007.

NOTE 11. SUBORDINATED LIABILITY

According to Q Vara bond investors' vote that ended on April 7, 2008 the investors granted Q Vara a right to raise additional capital until June 30, 2008 to bring the equity share in line with the bond issue terms. In order to grant required equity level in Q Vara, OÜ SLProductions, shareholder of Q Vara, issued an assurance letter on March 24, 2008 according to which it confirmed its readiness to invest additional capital into Q Vara if needed.

On June 25th 2008, Q Vara and the subsidiary of OÜ SLProductions, OÜ Q Capital, entered into loan agreement, pursuant to which OÜ Q Capital gave AS Q Vara a loan of 86,000 thousand kroons subordinated to all the liabilities of Q Vara. The additional capital shall be used for paying current liabilities and for creating a liquidity buffer. After the signing of the loan agreement, the process of converting the subordinated loan into equity capital was initiated. On July 27th 2008 the conversion was entered in the commercial register and the share capital of AS Q Vara was increased by 8 600 thousand kroons up to 190 111 thousand kroons. This means that by the moment of issuing this report, the volume of liabilities was 86 000 thousand kroons smaller and the equity capital bigger by the same amount compared to the balance sheet of June 30th, 2008.

According to the decision of Q Vara AS shareholders, OÜ Q Capital was issued 860 thousand new shares with nominal value of 10 kroons and issue premium of 90 kroons per share, so altogether the share capital of Q Vara increased by 8 600 thousand kroons and the issue premium increased by 77 400 thousand kroons. As a result of the transaction, OÜ Q Capital acquired the total of 4.5% of the share capital of AS Q Vara.

After the increase of equity capital Q Vara has fulfilled the bond issue terms' requirement to keep the company's equity share at 30% of the total assets. But as the subordinated loan was converted into equity capital only in July, the balance sheet of the first 6 months reflects the sum invested by shareholders as subordinated loan. Thus, by analysing the balance sheet, the subordinated loan must be added to the equity capital when calculating the equity share of the total assets.