

23 March 2009

R.G.I. International Limited

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

R.G.I. International Limited, (“RGI” or the “Company”), the AIM listed developer of high-end properties in Moscow and the surrounding area, announces its results for the year ended 31 December 2008.

Financial summary

- Macroeconomic conditions and underlying property market forces affecting Russian real estate developers deteriorated dramatically in the second half of 2008
- RGI has responded quickly by limiting work in respect of all but one project to obtaining approvals and permits from the relevant authorities
- Construction work continues on the Tsvetnoy Development, a mid-tier retail development located on Tsvetnoy Boulevard
 - Development scheduled for completion in Q2 2009
- Funding of the Tsvetnoy Development secured by US\$100 million limited recourse term loan facility, arranged on competitive terms in March 2008
- Total market value of the RGI development portfolio decreased by 67% to US\$811.1 million (30 June 2008: US\$ 2,451.0 million)
- NAV per share reduced to US\$4.70 (30 June 2008: US\$16.15) per share compared to US\$4.50 at 2006 AIM Admission
- Cash balance at 31 December 2008 of US\$21.7 million
- No debt maturities scheduled for the next 18 months

Commenting on the results, Jacob Kriesler, Executive Chairman said:

“I believe that our revised strategy and our low financial leverage will enable us to weather the current financial storm.

We maintain our view that over the long-term the Moscow real estate market is fundamentally an attractive high growth market with favourable supply and demand economics. Although we plan to continue operating with caution in the short term we believe that our portfolio, covering prime city locations, has significant potential and should market conditions change we will revise our strategy accordingly.”

For further information please contact:

R.G.I. International Limited Emanuel Kuzinets, Director	+972 3 777 87 00
Citigate Dewe Rogerson - Financial PR Adviser Tom Baldock / Sandra Novakov / Hannah Seward	+44 20 7282 2889
Shore Capital and Corporate Ltd - Nominated Adviser Dru Danford / Pascal Keane	+44 20 7408 4090

There will be a conference call for investors and analysts today at 8.00am GMT / 11.00am Moscow. The international dial in number is +44 203 003 2666 and the password is RGI.

Notes to Editors

R.G.I. International Limited is a property development and management company whose core business is the development and management of high-end residential, office and retail properties in Moscow and the surrounding area. The Company's developments are characterised by light, space, design excellence and the highest quality building materials.

RGI's management has been developing property in Moscow since 1995 and the Company has been listed on the AIM market of the London Stock Exchange since December 2006, when it raised US\$192m from international investors. In April 2007 a secondary share offer raised a further US\$251m. Since this time, RGI has invested US\$297m in six new development projects in Moscow and the surrounding areas.

RGI's portfolio is comprised of ten projects, covering a total of 1.478 million sq. metres. Independent appraiser DTZ's most recent valuation report, dated 31 December 2008, attributed a total market value of US\$811 million to the portfolio.

For more information go to www.rgi-international.com.

CHAIRMAN'S STATEMENT

Macroeconomic conditions and the underlying property market forces impacting Russian real estate developers deteriorated dramatically during the second half of 2008. What began as a sub-prime mortgage related credit crunch in the U.S. and Western Europe developed into a global recession that is now affecting every sector of the Russian economy, with property markets suffering in particular as a result. Following extremely weak economic indicators in the fourth quarter of 2008 and the beginning of 2009, the Russian government has recently cut its 2009 GDP growth forecast to -2.2%. Uncertainty about prospects for the global and the Russian economy and the virtual absence of available credit, has caused a dramatic decrease in demand for real estate assets across all segments in Russia and is creating an extremely challenging year for Russian developers in 2009.

We were quick to recognise and react to the change in the Russian real estate market. As announced on 7 November 2008, we have decided to focus on completion of our one project currently under construction, the Tsvetnoy Development, while limiting work in respect of our other projects to obtaining approvals and permits from the relevant authorities. We have since prioritised the capital requirements for our business as a whole and balanced the cash implications of starting construction on projects against the need to protect the Company in the longer term. As a result, the Company's construction work (other than the Tsvetnoy Development) has been placed on hold until sufficient long-term debt financing can be secured on commercially attractive terms and/or sufficient cash flow can be generated from pre-sales. In addition, due to the reduced development activity we have significantly reduced our headcount (by more than 40% since June of last year) and other general and administrative expenses.

I believe that our revised strategy and our low financial leverage will enable us to weather the current storm and be well placed to re-commence construction activity when market conditions improve. We maintain the view that over the long-term the Moscow real estate market is an attractive high-growth market with favorable supply and demand economics. I believe that the current crisis further highlights RGI's basic approach to the business: prime locations and high quality product at competitive prices are of paramount importance. Although we plan to continue operating with caution in the short-term, we believe that our portfolio and development plans have significant potential and we will consider revising our strategy and specifications for individual developments further while applying a more aggressive development strategy at the appropriate time in the future.

Portfolio performance

After concentrating on extending our land bank and expanding our project portfolio in 2007, we focused our resources during the first half of 2008 on developing existing projects and preparing the Company for an anticipated period of intensive development. We moved forward with the design, planning and approval processes for the nine projects that were held for development and we continued construction on our tenth development, a mid-tier retail project located at Tsvetnoy Boulevard, in the centre of Moscow, for which we also secured construction debt financing on competitive terms.

As the Russian economy and real estate market weakened during the second half of the year, we reviewed our strategy and changed our development plans.

Our portfolio includes nine projects held for development and one project under construction. According to LLC Debenham Zadelhoff Limited's ("DTZ"), the international property appraiser, the value of a 100% ownership stake in these development projects as at 31 December 2007 and as at 30 June 2008 amounted to US\$2,289 million and US\$2,451 million respectively. The same portfolio was valued by DTZ as at 31 December 2008 at US\$811.1 million, representing a 67% decrease in valuation vs. the 30 June 2008 valuation.

Severe adverse market conditions and the resulting change in strategy had a significant negative impact on our projects' valuations and NAV per share. The adverse impact had three different aspects:

- Approximately 40% of the decrease in valuation came as a result of price and cost factors: lower selling prices and rents were partially offset by lower than previously expected construction costs.
- Approximately 30% of the decrease in valuation came as a result of longer than expected development cycles and higher cost of capital: following our revised strategy, and as further detailed in the Property Report below, we have postponed the beginning of construction on all of the nine projects held for development and extended the expected construction period on at least the larger ones. In addition, the risk levels associated with real estate development activity in Russia (as reflected in the capitalisation rates, cost of debt and required return on equity) have significantly increased in comparison to the previous valuation date.
- Finally, approximately 30% of the decrease in valuation came as a result of changes to the planned scope and size of the projects: the higher cost of capital, the lack of availability of debt financing on commercially attractive terms (at least in the short-term) and the increased marketing risks led us to reassess and eliminate some of the capital intensive portions of our proposed projects, including relocation costs (as is the case in the Chelsea Development) and infrastructure investments (as is the case in our Kingston Development). Save for these capital intensive portions, we have adjusted our development plans and decreased the proposed buildable area across our portfolio from 2.15 million sq.m to 1.48 million sq.m.

Correspondingly with the reduced valuation of our projects' portfolio, RGI's NAV and NAV per share have decreased from US\$1,951 million and US\$15.51 per share at 31 December 2007 to US\$592 million and US\$4.70 per share at 31 December 2008 (a decrease of 70%). General and administrative expenses and other non-project related cash expenses (such as interest payment on our corporate level debt) have further reduced our NAV.

Further details on our NAV, DTZ's valuation report and the description and the status of our projects can be found in the Property Report below.

Portfolio status

Of our ten projects, one is currently in the course of construction (the Tsvetnoy Development) and nine are held for development at different stages of the permit and statutory approval processes. We expect to complete the Tsvetnoy Development by mid 2009 and an additional five developments - Khilkov, Zemlianoy, Ostozhenka, Dream and Maya - during 2011. Three additional projects, Chelsea, Victory Park and Media City are expected to be completed during 2012. Our largest project, Kingston, is currently at the conceptual design stage and will be developed in stages over the next nine years. We have reassessed our development schedule and delayed the expected completion dates of all of our projects due to current market conditions. Our development schedule now assumes that Moscow property markets will recover over the next 2-3 years and that the necessary financing for construction will be obtained either through construction loans and/or pre-sales.

In addition, in common with a number of Moscow real estate developers, the Company and its subsidiaries (the "Group") will be exposed to certain risks associated with the delay in the commencement and completion of our projects. Certain members of the Group have entered into investment contracts in respect of our Chelsea, Dream, Khilkov, Kingston, Maya, Media City, Tsvetnoy and Zemlianoy projects. Such investment contracts specify the term during which construction of the relevant project must be completed. In common with a number of Moscow real estate developers, the Company therefore intends to renegotiate the terms of the relevant investment contracts. Whilst the Company expects that the Moscow City Government will accommodate the Group's requests to amend

the terms of such agreements, the Moscow City Government may refuse to renew or may terminate the relevant investment contract, if certain project milestones are not achieved or if construction is not completed in accordance with the construction schedule or by the expiration date required in the relevant agreement, on the grounds that the relevant member of the Group did not comply with the substantial requirements of the contract. The Group has also not entered into any land lease agreements in respect of, nor does it hold any title to the buildings located at, the Dream, Maya, Media City and Zemlianyoy projects and part of the Chelsea project. In the event that the Group fails to successfully renegotiate the relevant investment contract in respect of any of these projects, it would lose all its rights in respect of the relevant project and any investment made in such project to date.

As mentioned above, our only project under construction and scheduled for completion over the next two years is the Tsvetnoy Development. This project is located at 15 Tsvetnoy Boulevard, in central Moscow, between two of Moscow's famous "ring roads", Bul'varnoe and the Garden Ring Road. We expect to complete the project to shell and core standard in the second quarter of 2009. The development is proposed to be used as a shopping centre. It will comprise 11 levels, including four underground levels. The gross internal area of the completed complex will be approximately 36,765 square meters, including seven floors of retail space and four underground levels of parking. The Company is currently finalising the fit-out concept, floor plan and desired tenant mix for the Tsvetnoy Development. The Company plans to market and operate the building as a mid-tier, inner-city shopping centre with a department store design and with a varied product category mix. Pre-letting activity itself will commence only after finalising the fit-out concept which is currently expected to be in the second quarter of 2009. The Company's current strategy is to pre-lease units within the Tsvetnoy Development to a number of retail clients thereby generating income for the Company. We will also consider selling the Tsvetnoy Development under appropriate conditions.

Funding for the Tsvetnoy Development was obtained by way of a US\$100 million limited recourse term loan facility entered into between the Company's subsidiary, Central Market, and JSC "Commercial Savings Bank of the Russian Federation" (Sberbank). The term of the Facility expires on 25 March 2012. As at the date of this report, Central Market has drawn down US\$44 million under the Facility. The Company estimates that the remaining US\$56 million that may be drawn down under the Facility in various stages will be sufficient to fund all remaining development costs for the Tsvetnoy project.

Strategy

The Company's overall strategy is to strengthen its position as one of the leading developers of high-end properties in Moscow and the surrounding areas. To achieve this goal and in light of the Company's revised strategy, RGI intends to pursue the following strategy:

Effectively handle the current crisis: To preserve cash and protect RGI's long-term prospects, the Company will continue to be cautious in the short-term and limit its development activity (other than with respect to the Tsvetnoy Development) to obtaining approvals and permits from the relevant authorities. We will not commence any new construction work until sufficient long-term debt financing can be secured on commercially attractive terms and/or sufficient cash flow can be generated from pre-sales. We will consider revising our strategy and specifications for individual developments further while applying a more aggressive development strategy at the appropriate time.

Our long-term development strategy will comprise of the following key aspects:

Disposal/Rent of portfolio projects: We intend to complete the construction of our current development projects. In general, we intend to retain and manage the completed commercial and retail properties, although all or part of such developments may be sold in the right market conditions. The Company intends to dispose of its completed residential property developments.

Geographic focus: Boris Kuzinez, CEO of RGI has a great deal of experience and expertise in the Moscow real estate market. Drawing on this experience, the Company will continue to focus its activities principally within or proximate to Sadovoe Koltso, Moscow's "Garden Ring" road, which is generally accepted as the boundary of central Moscow. In certain circumstances, where the Company identifies specific attractive opportunities, we may develop properties in suburban Moscow.

Financing: We intend to use debt finance to optimise the capital structure of the Company and to secure additional capital necessary for the development of our projects. This can be obtained either through credit line facilities to RGI and its subsidiaries or by obtaining construction loans for the projects. When appropriate, the Company may also seek to obtain equity finance.

Financing

During the twelve months ended 31 December 2008, we have not acquired any new development projects nor have we disposed of any existing ones. The amount invested in our existing projects as well as the cash used in operating activity amounting to US\$153.5 were primarily financed by depleting our 2007 year-end cash balance (which was reduced from US\$162.8 million to US\$21.7 million as at 31 December 2008) and through draw downs in the total amount of US\$44.0 million under the construction loan we secured for our Tsvetnoy Development (see note 13 to the financial statements and the Directors' Report below).

On 24 June 2008 we completed a further issue of our unsecured Series A 8.7% bonds (the "Bonds") via a private placement in Israel, raising net proceeds of approximately US\$15.6 million, increasing the total net proceeds to-date from this series to approximately US\$47.8 million. Later in the year, during the 4th quarter, we repurchased some of the outstanding Bonds at a discount of approximately 21% from the issue price, for a total consideration of approximately US\$18.8 million. As at 31 December 2008 the remaining outstanding amount of the Bonds was approximately US\$25.5 million. The Bonds mature in three equal annual installments on 30 November 2010, 2011 and 2012. However, the Bonds become repayable in the event of a downgrade by S&P Maalot from their current rating of BBB+ to BBB- or below (see note 15 to the financial statements and the Directors' Report below).

The Group does not have any debt currently scheduled to mature in the next 18 months and only approximately US\$25 million of debt is scheduled to mature up until February 2012.

Following the change in our strategy, the reduced scope of our Chelsea Development and the delay in the development schedule, we have decided to sell some of the apartments that we previously purchased as part of the relocation effort and that are no longer needed at this time for development activity. These apartments, together with an office space we own and no longer use, were re-classed as inventory (see note 9 to the financial statements). Given the current economic crisis and the poor lending environment, we do not expect to secure any additional debt financing during 2009 and we intend to finance our cash requirements over the next twelve months with our existing cash balance, by drawing down the remaining line of credit under the Tsvetnoy construction loan agreement and by selling the inventory mentioned above.

As part of our long-term strategy, we intend to adopt the practice of direct project financing from local Russian banks or from international banks in order to finance our existing developments and/or other developments to the extent possible. Such finance will depend upon, inter alia, the status of the permits and approvals necessary to proceed with the Company's development projects and will only be possible, in our view, after improvement in the global and the Russian credit markets.

Financial results

The results for the year ended 31 December 2008 are set out in the consolidated financial statements below.

In 2006 and 2007 the Company accounted for its acquisitions of new development projects as business combinations under IFRS 3. According to this standard, assets and liabilities that were acquired in the course of business combination were recorded at their fair value. The difference between the Company's share in the fair value of the net assets acquired (after accounting for deferred income tax liability) and the purchase price (negative goodwill) was recognised immediately in the consolidated income statement. Accordingly, due to its acquisitions of new development projects, the Company recognised income of US\$58.5 million and US\$675.5 million in 2006 and 2007 respectively. No acquisitions of new development projects were made in 2008.

As a result of the current market crisis and the significant reduction in the fair value of the Company's development projects, the Company recorded an impairment loss in 2008 of US\$898.3 million (see Note 6 to the consolidated financial statements below). This impairment loss was partially offset by a consequential reduction of US\$233.1 million in deferred tax liability (see Note 11 to the consolidated financial statements below) and by the minority share in the net asset reduction in the amount of US\$86.5 million.

Loss attributable to equity holders of the Company for the year ended 31 December 2008 was US\$628.7 million compared to a profit of US\$656.4 million for the year ended 31 December 2007. As mentioned above, the loss in 2008 was mainly due to the impairment loss recorded while the profit in 2007 was primarily due to the recognised negative goodwill.

The diluted loss per share for the year ended 31 December 2008 is US\$5.00 compared to earnings per share of US\$5.51 for the year ended 31 December 2007.

The Company's cash balance as at 31 December 2008 was US\$21.7 million (31 December 2007: US\$162.8 million). As at 31 December, 2008 the equity attributable to the Company's equity holders was US\$444.4 million. RGI's debt ratio at the date of this Report remains low and the Company expects to use this capacity to continue raising external debt financing, when market conditions improve.

Market outlook

Both economic and real estate market conditions in Russia have dramatically deteriorated during the second half of last year in the context of the Company's business. Russia's previously fast growing economy is now dealing with a dramatic decline in global demand for natural resources and is expected to contract by 2.2% during 2009. Significant slowdown in industrial output (decreased 10.3% YoY in December) and retail activity (increased only 4.8% YoY in December versus an increase of 16.7% YoY in December 2007) coupled with the decline in real disposable income (decreased 11.6% YoY in December 2008) and the significant wealth loss (RTS index lost approximately 78% of its value since its peak level in March 2008) has led to a sharp decrease in the demand for both residential and commercial property. The devaluation of the Russian Ruble (lost approximately 54% of its value against the US Dollar since the peak level in July 2008) and the virtual none availability of both consumer and commercial credit are further adversely affecting the Russian and Moscow real estate market.

It is difficult to predict how long the current financial and economic crisis will continue and for how long and to what extent the Company's business climate and NAV will continue to deteriorate. Nevertheless, we maintain the belief that in the long-term Moscow property markets enjoy favorable supply/demand economics. There are still significant gaps that exist between average European living and commercial space standards and the current corresponding standards in Moscow. In addition, the crucial role Moscow plays in the Russian and the broader ex-Soviet state economies, the expansion potential it represents to international companies and its significant appeal to wealthy individuals further support its long-term prospects. We believe that the Russian economy will recover together with the global economy and resume a growth pattern over the next 2-3 years.

Jacob Kriesler
Chairman

20 March 2009

DIRECTORS' REPORT

The Directors of the Company present their annual report on the activities of the Company, together with the audited consolidated financial statements for the year ended 31 December 2008.

Key highlights

- ❖ On 26 March 2008 the Company announced the arrangement of a secured, limited recourse term loan facility of US\$100 million between LLC Central Market (a subsidiary of RGI) and JSC “Commercial Savings Bank of the Russian Federation” (“Sberbank”), the largest bank in Russia. The loan is to be used to fund the construction of the Tsvetnoy Development, a primarily retail mid-tier development at 15 Tsvetnoy Boulevard in Moscow. As at 31 December 2008 the total amount drawn down under the loan was US\$44.0 million and the remaining facility is expected to be sufficient to cover all remaining development costs for the Tsvetnoy Development.
- ❖ On 24 June 2008 the Company announced a successful further issue of the Company's unsecured Series A 8.7% bonds via a private placement in Israel, raising net proceeds of NIS51.2 million (approximately US\$15.6 million) and increasing the total net proceeds to-date from this series to approximately US\$47.8 million. The Group has obtained a local Israel credit rating from S&P Maalot – the Israeli subsidiary of Standard and Poor's Rating Services, a division of McGraw-Hill Companies, Inc. – of BBB+/Negative for the issue of the second placement of the Bonds. The Bonds are linked to the Israeli consumer price index (“CPI”) and their maturity is scheduled in equal annual instalments between November 2010 and November 2012. However, the Bonds become repayable in the event of a downgrade by S&P Maalot from their current rating of BBB+ to BBB- or below. During the second half of 2008, the Company began repurchasing some of the Bonds. As at 31 December 2008, a total of NIS85.4 million of the Bonds were repurchased, for a total consideration of approximately NIS72 million (approximately US\$18.8 million), which represents an average discount of 21% to the CPI adjusted face value of the Bonds that were repurchased. The profit arising from the repurchasing activity was recognised in the consolidated income statement in net finance expense. As a result of the repurchasing activity, the total outstanding CPI adjusted amount of the Bonds as at 31 December 2008 was NIS100.2 million (approximately US\$25.5 million).
- ❖ The global economy has experienced a sharp downturn over the past year and in particular during the second half of 2008 with stock markets exhibiting significant value fluctuations. What started as a sub-prime mortgage related credit crunch in the U.S. and Western Europe emerged into a global recession and is now adversely affecting every aspect of the Russian economy and its property markets. Activity in the Moscow real estate market has slowed significantly and prices and rental levels have suffered significant declines in recent months. Many Russian real estate developers have been unable to obtain debt financing on commercially acceptable terms in order to continue with the development of their real estate portfolios. Potential purchasers or tenants of real estate developments have also been negatively impacted by the significant contraction of the economy since late 2008 and by the unavailability of credit. Furthermore, the financial stability of contractors, architects and suppliers is also affected by the current financial and economic crisis. Following growing signs of a weakening Russian economy and real estate market, the Company announced on 7 November 2008 its decision to focus on completing the Tsvetnoy Development, while limiting work in respect of all other projects to obtaining approvals and permits from the relevant authorities. As a result, the Company's construction work (other than the Tsvetnoy Development) was placed on hold until sufficient long-term debt financing can be secured on commercially attractive terms and/or sufficient cash flow can be generated from pre-sales. In addition, due to the lower development activity the Company has significantly reduced its headcount (by more than 40% since June of last year) and other general and administrative expenses.

Strategy

The Company's overall strategy is to strengthen its position as one of the leading developers of high-end properties in Moscow and the surrounding areas. To achieve this goal and in light of the Company's revised strategy, RGI will act according to the following guidelines:

Handling the current financial/economic crises and global recession:

Economic and real estate market conditions in Russia dramatically deteriorated during the second half of last year. Global and particularly Russian capital markets and banking systems have been in crisis. This has made it extremely difficult for Russian real estate developers to access the capital required to begin construction on new projects or to sell or let properties on commercially reasonable terms.

In response to these events and after reviewing the entire portfolio of the Company together with the proposed completion schedules for individual projects, the Board of Directors of RGI (the "Board") has decided to focus on completing the Tsvetnoy Development, while limiting work in respect of the Company's other projects to gaining approvals and permits from the relevant authorities.

The Board has since prioritized the capital requirements of the business as a whole and balanced the cash implications of beginning construction on projects with the need to protect the Company in the longer term. As a result, the Board has decided to delay construction across the balance of RGI's portfolio with the exception of the Tsvetnoy Development. Such work will be placed on hold until sufficient long-term debt financing can be secured on commercially viable terms and/or sufficient cash flow can be generated from pre-sales. RGI will also consider revising its strategy and specifications for individual developments if it believes it would be in the best interests of the Company. With RGI's construction schedules on hold, expenditure on relocations, detailed planning work and construction are being significantly reduced. RGI will continue the process of gaining approvals and permits from the relevant authorities in respect of its remaining projects so that the Company is well placed to re-commence construction when market conditions improve.

The Company's long-term development strategy will comprise of the following key aspects:

High-end residential developments:

The Board considers the development of high-end and elite residential property as an attractive segment of the Moscow real estate market in the long term. The Directors believe that the market for residential property in Moscow is characterized by low supply per capita and ageing stock, and therefore, that long-term demand for residential properties will continue to grow although at a slower pace than was predicted before the current crisis. Furthermore, the Board believes that long-term investment in high-end residential developments will enable the Company to continue to command premium prices on the sale of its residential property. The Company's strategy is to dispose of its residential property developments upon completion of construction.

Office and retail developments:

Up until mid 2008, driven by strong economic growth, the demand for high-end office and retail property space in central Moscow and the surrounding areas had increased substantially. However, the supply of such property has not met demand due to high barriers to entry for developers and the intrinsic difficulties of developing properties in central Moscow.

The Board expects this trend to continue over the long-term especially since many of the proposed commercial developments in central Moscow are now being put on hold. Therefore, the Board is intending to allocate, as part of the Company's long-term plan, a significant proportion of capital resources to the development of high-end office and retail properties.

In general, the Company's strategy is to retain ownership of, and lease and manage the completed office and retail properties within its developments, in order to maximize the return on these properties and to generate consistent income flow. However, in the right market conditions, RGI may dispose of all or part of its office and retail properties if the Board believes that doing so will optimize shareholder value.

Mid-tier residential development:

The Board believes that like the high-end residential market, the market for mid-class residential property in Moscow is broadly characterized by low supply per capita and ageing stock, and therefore, that demand for mid-class residential properties will resume its growth pattern when credit markets begin to operate normally again.

With regard to the Kingston Project, management is currently reviewing opportunities for the site and, after completing a new urban design, may decide to develop the site (solely or in partnership) or sell it to third party developers.

Geographic focus:

Boris Kuzinez, CEO of RGI has a great deal of experience and expertise in the Moscow real estate market. Drawing on this experience, the Group will continue to focus its activities principally within or proximate to Sadovoe Koltso, Moscow's "Garden Ring" road, which is generally accepted as the boundary of central Moscow. In certain circumstances, where the Company identifies specific attractive opportunities, the Group may develop properties in suburban Moscow.

Obtaining financing:

The Company intends to use debt finance to optimize its capital structure and to secure sufficient capital for the development of its projects. This can be obtained either through credit line facilities to RGI and its subsidiaries or by obtaining construction loans for the projects. When appropriate, the Company will also seek to obtain equity financing.

Dividends

The Company has not paid any dividends since its incorporation. The Company's developments have initially been highly capital intensive and will continue as such, given the early stage nature of the Company's portfolio. The Directors do not therefore currently anticipate paying dividends in the foreseeable future. In the long term, the Company expects to target a dividend rate of between 30% to 70% of recurring income.

Board of Directors

As at 31 December 2008 and at the date of this report there are seven members of the Board. Collectively, the Board has extensive operational experience in the Moscow real estate market, and is composed of both internationally and Russian-based executives.

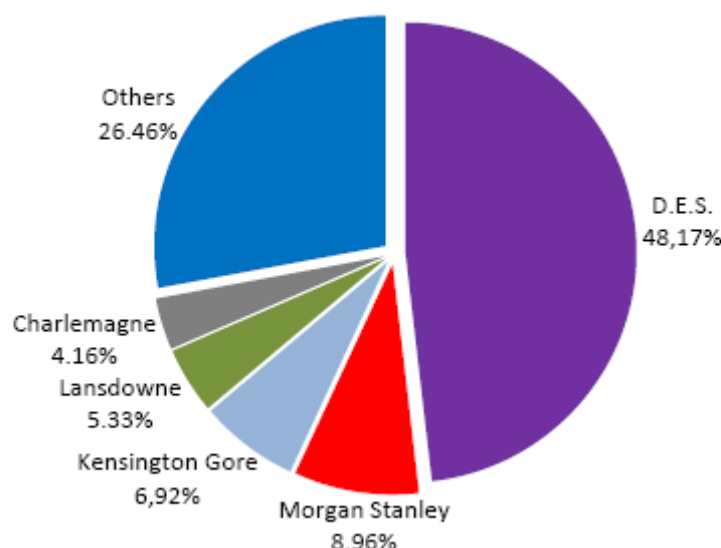
The Board consists of the following Directors:

Jacob Kriesler, Chairman	Appointed 13 July 2006
Boris Kuzinez, Chief Executive Officer	Appointed 23 November 2006
Emanuel Kuzinets	Appointed 13 July 2006
Yoram Evan, Chief Financial Officer	Appointed 3 April 2008
Glenn Aaronson, Non-Executive	Appointed 27 September 2006
Timothy Fenwick, Non-Executive	Appointed 23 November 2006
Rafael Eldor, Non-Executive	Appointed 23 November 2006

All Directors continued to hold office from the date of appointment through to the date of approval of this Report.

Share Capital

Share distribution as at 31 December 2008 (in %)



Mr. Boris Kuzinez owns 90% and Mr. Jacob Kriesler owns 10% of D.E.S. Commercial Holdings

Currently, RGI's entire issued ordinary share capital is 125,786,978 shares. In addition, awards of 2,121,500 shares were granted to RGI's employees under RGI's approved Long Term Incentive Plan. The amount of award shares is conditional upon attaining certain performance criteria set out in the plan. The total amount of shares on a fully diluted basis is 127,908,478 shares.

Corporate Governance

The Company complies, so far as practicable and appropriate for a company of its size, with the main provisions of the Combined Code. There is no corporate governance regime with which the Company is required to comply in Guernsey, its place of incorporation. However, the Company has established an audit committee, remuneration committee and nomination committee.

The Company has also adopted a share dealing code, based on the Model Code (as set out in Annex 1 to Chapter 9 of the Listing Rules of the UK Listing Authority) for directors, persons discharging managerial responsibilities and relevant employees.

Audit Committee

The Company has established an Audit Committee. The Audit Committee comprises at least three members, a majority of whom are independent non-executive Directors. The current members of the Audit Committee are Glenn Aaronson, Rafael Eldor and Timothy Fenwick. It meets at least twice each year and at any other time when it is appropriate to consider and discuss audit and accounting related issues.

The Audit Committee is responsible for monitoring the quality of any internal controls and for ensuring that the financial performance of the Group is properly monitored, controlled and reported on. It will also meet the Company's auditors and review reports from the auditors relating to accounts and any internal control systems. It is chaired by Rafael Eldor.

Remuneration Committee

The Company has established a Remuneration Committee. The Remuneration Committee comprises at least three members, a majority of whom are independent non-executive Directors. The current members of the Remuneration Committee are Glenn Aaronson, Rafael Eldor and Timothy Fenwick, who review the performance of the executive Directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of Shareholders.

In determining the remuneration of executive Directors, the Remuneration Committee seeks to enable the Company to attract and retain executives of the highest calibre. No Director is permitted to participate in discussions or decisions concerning their own remuneration. The Remuneration Committee is chaired by Timothy Fenwick.

Nomination Committee

The Company has established a Nomination Committee. The Nomination Committee comprises at least three members, a majority of whom are independent non-executive Directors. The current members of the Nomination Committee are Jacob Kriesler, Rafael Eldor and Timothy Fenwick, who will be responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise. The Nomination Committee is chaired by Rafael Eldor.

Takeover Code

The Takeover Code does not apply to the Company. As a result, a takeover offer for the Company will not be regulated by the UK takeover authority (The UK Panel on Takeovers and Mergers). The Articles contain certain takeover protections, although these will not provide the full protections afforded by the Takeover Code.

Disclosure of Shareholdings

Although The Companies (Guernsey) Law, 2008 (as amended) contains no requirement for shareholders to disclose their interests in the Ordinary Shares, the Company has adopted provisions in the Articles requiring any person who acquires three per cent or more of the Company's relevant share capital to disclose the nature and amount of such interest and providing for sanctions against persons who fail to do so.

Environmental Issues

Environmental laws and standards in Russia are not generally comparable to those in more developed countries and, therefore, the pollution-related liabilities of any property may not be determinable at the time the Group acquires its rights to such land for development. Contamination of any land being developed by the Group that is unknown or undetected at the time of acquisition may result in material delays or increase the cost of construction and may adversely affect the Group's return on such development.

So far as the Directors are aware, the Group has obtained all necessary licenses and complies in all material respects with all relevant environmental requirements existing under applicable Russian law.

Currency

The Group's functional currency is Russian Rubles. The ordinary shares in RGI are quoted on AIM in US dollars. The Group's income and expenditure are predominantly denominated in US dollars although it is expected that for commercial purposes a significant proportion of such income and expenditure may be negotiated using US dollars and paid in Rubles at the prevailing spot rate. A certain proportion of expenditure is denominated in Russian Rubles and Euros.

Directors Responsibilities

The Directors are required by The Companies (Guernsey) Law, 2008 (as amended), to prepare consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group as of the end of the financial period and the profit or loss of the Group for the period then ended. In preparing those consolidated financial statements the Directors are required to:

- select generally accepted accounting policies and then apply them consistently;
- make judgments that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the consolidated financial statements comply with The Companies (Guernsey) Law, 2008 (as amended). They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Registration

The Company was incorporated in Guernsey on 14 March 2006 as a limited liability company in accordance with the provisions of The Companies (Guernsey) Law, 2008. As at 31 December 2008, the registered office and business address was Frances House, Sir William Place, St. Peter Port, Guernsey, GY1 4HQ.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Auditors

The independent auditors, ZAO PricewaterhouseCoopers Audit, have indicated their willingness to continue in office, and a resolution that they will be reappointed will be proposed at the Annual General Meeting.

Approved by the Board on 20 March 2009

PROPERTY REPORT

Portfolio Performance

As of 31 December 2007, following the sale of the Butikovsky development in December 2007 and the decision of the directors of the Company (the “Directors”) to exclude the Taganka pipeline project, RGI’s property portfolio comprised 10 development projects. According to DTZ the value of a 100% ownership stake in these properties at the time amounted to US\$2,289.3 million. During 2008, we have not acquired any new projects nor have we disposed of any existing ones. As of 31 December 2008, RGI’s project portfolio comprised 10 projects, of which one is under construction and nine are held for development. DTZ valued RGI’s project portfolio as of 31 December, 2008 at US\$811.1 million on the basis of a 100% ownership stake in these properties, which reflects a year over year total decline of 65% in the valuation. The table below sets out the sequence of valuations carried out by DTZ for 100% ownership interest in these properties.

Valuations Progress

For 100% Ownership Stake

DEVELOPMENT	31 DECEMBER 2006 US\$ m	31 DECEMBER 2007 US\$ m	30 JUNE 2008 US\$ m	31 DECEMBER 2008 US\$ m
Properties completed				
Butikovsky	28.8	NA*	NA*	NA*
Properties in the course of construction				
Tsvetnoy	65.1	162.9	196.2	116.8
Properties held for development				
Khilkov	161.8	226.7	237.8	151.6
Zemlianoy	21.2	32.2	39.2	16.2
Ostozhenka	13.7	23.7	25.3	14.3
Chelsea	NA	664.8	735.8	131.6
Victory Park	NA	206.1	211.9	40.0
Media City	NA	137.5	150.0	17.0
Dream	NA	71.7	76.7	47.1
Maya	NA	41.7	43.7	14.8
Kingston	NA	722.1	734.4	261.7
Total properties completed, in the course of construction and held for development	290.6	2,289.3	2,451.0	811.1
Pipeline Properties				
Taganka	95.2	NA**	NA**	NA**
Total	385.8	2,289.3	2,451.0	811.1

* The Butikovsky Project was sold in December 2007 for total consideration of US\$97.2 million.

** Upon the acquisition of LLC Directway Investments the Directors considered the Taganka Project as a “pipeline property”, as the Group did not have any land lease rights in relation to the Taganka Project, nor did it have any formal approvals or resolutions from the Moscow City Government permitting the Company to develop the Taganka Project. As at the date of this report, the status of the Company’s land lease rights and construction approvals and resolutions remains unchanged. The Directors have therefore reassessed the Taganka

Project and have concluded that any progress in its development in the foreseeable future is unlikely. The Directors have decided to maintain their decision of 18 March 2008, which excluded the Taganka Project from the Company's current property portfolio and therefore no value will be attributed to the project in these financial statements and NAV calculations.

RGI's target ownership, based on the actual beneficial holdings in the process, in the Khilkov Development amounts to a 50% interest, whereas target ownership in the Sucreti projects (Maya, Dream, Media City and Kingston) amounts to a 73% interest. RGI's target ownership in all other projects amounts to a 100% interest. The table below sets out DTZ's current and completion valuations of RGI's target ownership in the projects.

Valuations for RGI's Target Stake

Development	Primary Asset Type	Expected Completion*	GIA sq.m	RGI's Target Stake	Valuation as at 31 Dec 2008 US\$ m	Valuation at Completion US\$ m
Properties in the course of construction						
Tsvetnoy	Retail	2009	36,765	100%	116.8	181.7
Properties held for development						
Khilkov	Residential	2011	27,258	50%	75.8	175.9
Zemlianoy	Hotel	2011	9,630	100%	16.2	51.0
Ostozhenka	Residential	2011	1,000	100%	14.3	25.0
Chelsea	Mixed use	2012	89,330	100%	131.6	682.2
Victory Park	Residential/ Hotel	2012	25,000	100%	40.0	165.8
Media City	Office	2012	87,000	73%	12.4	180.3
Dream	Office	2011	18,206	73%	34.4	103.6
Maya	Office	2011	8,811	73%	10.8	42.4
Kingston	Residential	2017**	1,175,500	73%	191.1	1,827.9
Total			1,478,500		643.4	3,435.8

* Expected completion dates are estimated based on best available data and are examined periodically.

** The Kingston Development will be developed in stages. Upon receiving necessary approvals, we intend to either develop it ourselves and/or sell all or part of the development rights to other developers. We expect the Kingston Development to be completed by 2017.

The Company's NAV per share decreased from US\$15.51 on 31 December 2007 per share to US\$4.70 per share at 31 December 2008 (decrease of 70%). The Company's total NAV has decreased from US\$1,951 million at 31 December 2007 to US\$ 592 million as at 31 December (decrease of 70%). The Company's NAV calculation is presented in the following table:

NAV Calculation

DEVELOPMENT	RGI'S TARGET SHARE FAIR VALUE			
	31 DECEMBER 2006 US\$ m	31 DECEMBER 2007 US\$ m	30 JUNE 2008 US\$ m	31 DECEMBER 2008 US\$ m
Properties completed				
Butikovsky	28.8	NA*	NA*	NA*
Properties in the course of construction				
Tsvetnoy	65.1	162.9	196.2	116.8
Properties held for development				
Khilkov	80.9	113.4	118.9	75.8
Zemlianoy	21.2	32.2	39.2	16.2
Ostozhenka	13.7	23.7	25.3	14.3
Chelsea	NA	664.8	735.8	131.6
Victory Park	NA	206.2	211.9	40.0
Media City	NA	100.3	109.5	12.4
Dream	NA	52.3	56.0	34.4
Maya	NA	30.4	31.9	10.8
Kingston	NA	527.1	536.1	191.1
Total properties completed, in the course of construction and held for development	209.7	1,913.3	2,060.8	643.4
Pipeline properties				
Taganka	95.2	NA**	NA**	NA**
Total Fair Value of properties	304.9	1,913.3	2,060.8	643.4
Add net other assets***	152.4	37.5	(28.8)	(51.6)
Total NAV	457.3	1,950.8	2,032.0	591.8
No. of issued shares	101,706,144	125,786,978	125,786,978	125,786,978
NAV per share in US\$	4.50	15.51	16.15	4.70

* The Butikovsky Project was sold in December 2007 for a consideration of US\$97.2 million.

** The Directors have decided to remove the Taganka Project from the Company's current property portfolio and therefore no value will be attributed to the project in these financial statements and NAV calculations.

*** The net other assets includes as Group's non property development assets less liabilities, excluding deferred income tax liabilities regarding development property.

Project Descriptions

The Tsvetnoy Project

Building Type:	Commercial, retail shopping center
Gross Area:	36,765 sq.m
Parking Spaces:	396
Year of Completion:	2009

Location

The Tsvetnoy Development is a modern retail building located in the center of Moscow on Tsvetnoy Boulevard between two of the city's famous ring roads—the Boulevard and the Garden Ring. The metro station Tsvetnoy Boulevard is located just adjacent to the project. A park is located directly across the street and a famous landmark, Moscow's oldest circus, is situated nearby. The site is centrally located and easily accessible from anywhere in the city.

Design

The Tsvetnoy Development is proposed to be used as a shopping centre. The building has a gross area of 36,765 sq.m comprising 15,000 sq.m of prime leasable retail space and approximately 396 parking spaces for visitors. The remaining area is used for storage, service and subsidiary space. There are seven levels and four underground levels. The first floor forms a spacious entrance lobby and shopping area and the upper floors include additional areas for department stores and specialty retail boutiques. During 2008, Tsvetnoy received an award for its impressive architectural design.

Status

The Tsvetnoy Development is currently under construction and is expected to be completed to a shell and core standard during the first half of 2009. The Company is currently finalizing the fit-out concept, floor plan and desired tenant mix for the Tsvetnoy Development. Pre-leasing activity is expected to begin during the second quarter of 2009 after the fit-out concept for the building is completed.

Funding for the construction of Tsvetnoy is secured via a limited recourse US\$100 million loan facility provided by Sberbank which was arranged in March 2008 and matures in 2012. Management expects the facility to be sufficient to cover all of the project's remaining development costs.

Strategy

RGI's strategy for the Tsvetnoy Development is to market and operate the building as a mid-tier, inner-city shopping center with a department store design and a varied product category mix. The Company's current strategy is to lease units within the Tsvetnoy Development to a number of retail clients thereby generating a source of recurring income for the Company, although RGI would also consider selling the Tsvetnoy Development outright under appropriate market conditions either before or after the project is completed.

The Khilkov Project

Building Type:	Residential, ultra high-end apartments
Gross Area:	27,258 sq.m
Parking Spaces:	173
Year of Completion:	2011

Location

The Khilkov Development is a proposed ultra high-end residential building located in the most exclusive residential neighborhood in the center of Moscow on Khilkov lane, an area commonly known as Moscow's Golden Mile. Currently, the site comprises a small park and an old residential building which will be demolished as part of the redevelopment. There are three main tourist attractions nearby including the Cathedral of Christ the Savior, Gorky Park and the Kremlin, all within walking distance. The site is only 500 meters from the Garden Ring and Park Kultury and Kropotkinskaya metro stations are within five minutes walk.

Design

RGI's current design for the Khilkov Project entails a gross area of approximately 27,258 sq.m including 14,470 sq.m of residential space and approximately 173 parking lots. The remaining area is expected to consist of common areas, ancillary and maintenance areas.

As with other projects that RGI's founder has completed in the immediate vicinity (e.g., Copper House, Butikovsky and more), Khilkov will have an extremely high quality fit and finish with all materials and amenities being of the highest quality, and a unique modern architectural design highly unusual for residential buildings in Moscow.

Status

The proposed development plan for Khilkov is based on RGI's possession of an Investment Contract and ownership of a majority of the apartments in the existing building occupying the site. The project is currently in the pre-design stage. The Company's next step is to obtain a land lease and approval of the City of Moscow for the General Plan of the Land Plot (the "GPZU"). The project is expected to be completed to a shell and core standard during 2011 assuming that the remaining design and construction permissions are obtained on a timely basis and that sufficient financing is available.

Strategy

RGI's strategy for Khilkov is to pre-sell a significant part of the residential apartments in the building once design is completed and construction rights are obtained. The Company will only begin construction once financing is secured in the form of either construction loan or a sufficient level of pre-sales are made. Although the Company anticipates being able to finance all of the project's construction costs with proceeds generated from pre-selling apartments.

The Zemlianoy Project

Building Type:	Commercial, 4 star hotel
Gross Area:	9,630 sq.m
Expected number of rooms:	180
Year of Completion:	2011

Location

The Zemlianoy Development is a proposed mid/high-end hotel located in the southeast center of Moscow a short distance from the Garden Ring and in close proximity to the Theatre at Taganka – a famous Moscow landmark. Two underground metro stations, Kurskaya and Taganskaya, are located close to the development site.

Design

RGI's current design for the Zemlianoy Project envisages a 4 star hotel with approximately 180 rooms. The gross area of the development is 9,630 sq.m . The hotel is designed to include all common amenities and facilities of a modern, city center business hotel and will meet the design standards of most international hotel operators.

Status

The Company changed the intended use of the development from office to hotel after further review of the opportunities and limitations the area zoning dictates. The proposed development plan for Zemlianoy is based on RGI's possession of a co-investment contract and appropriate and suitable zoning. The development is currently in the concept design stage. The Company's next step is to obtain a land lease agreement and then finalize detailed designs. The project is expected to be completed to a shell and core standard during 2011 assuming that the necessary financing for construction is organized and the remaining design and construction permissions are obtained on a timely basis.

Strategy

RGI's strategy for Zemlianoy is to engage a branded hotel operator and hold the building thereby generating a source of recurring income for the Company, although RGI would also consider selling Zemlianoy outright under appropriate market conditions either before or after the project is completed.

Ostozhenka Project

Building Type:	Residential, ultra high-end single family townhouse
Gross Area:	1,000 sq.m
Parking Spaces:	3-4
Year of Completion:	2011

Location

The Ostozhenka Development is a proposed ultra high-end single-family townhouse located in the most exclusive residential neighborhood in the center of Moscow at the intersection of Ostozhenka and Khilkov streets. The area is commonly known as Moscow's Golden Mile.

The site is located in a conservation area that has special construction requirements to ensure that new building developments blend in with existing structures in order to preserve the look and feel of the neighborhood.

Design

RGI's current design for Ostozhenka has a gross area of 1,000 sq.m comprising five levels, including two underground levels, and an attic. The lower underground floor would be used for a parking garage with four spaces, ancillary and technical facilities, and a home theatre. The upper underground floor would comprise an entrance hall, a swimming pool and a winter garden. A drawing room, a dining room and a study would be located on the first floor, with bedrooms on the second floor. The attic would contain a library and a studio and a terrace would be included on part of the roof.

Status

The proposed development plan for Ostozhenka is based on RGI's ownership of the existing building on the site and the possession of a long-term land lease. The Company's next step is to finalize and approve the concept design with the authorities. The Company estimates that the project will be completed in 2011 assuming the necessary design approvals and construction permits are obtained in a timely manner and subject to finding a suitable buyer.

Strategy

RGI expects to be able to finance the total cost of construction for the project with proceeds generated from down payment. Marketing efforts will begin after design has been completed and development rights have been obtained and subject to market condition.

The Chelsea Project

Building Type:	Residential, high-end apartments with some ground-level retail
Gross Area:	89,330 sq.m
Parking Spaces:	671
Year of Completion:	2012

Location

The Chelsea Development is a proposed multi-building development comprising primarily residential areas in addition to some retail space. The total area of the development comprises 15 hectares spread over three city blocks. Chelsea is located to the east of Tsvetnoy Boulevard approximately 2 kilometers north of the Kremlin within the Garden Ring. The Sretenka district, in which the Chelsea Development is located, is part of the heart of the historical city-centre and has a large number of quiet lanes and churches. The historical richness of one of the oldest districts in Moscow combined with modern development, both commercial and residential, make this area one of the most attractive in the city. The site borders the Garden Ring road and metro stations Sukharevskaya, Trubnaya and Sretenka are nearby making the site extremely accessible.

Design

RGI's current design for the Chelsea Development entails the construction of 8 new buildings across the site which would involve the demolition of some existing buildings followed by the construction of new apartment blocks, some of which will include retail space at the first floor level.

The company is currently working on completing designs and obtaining permissions for 8 separate developments totaling approximately 89,330 sq.m. Each of these projects would be built independently over time as the Company obtains the necessary permissions and financing. Additional sub-projects may be added as the Company progresses with the development and new opportunities arise.

Status

The Company has reassessed the economics of the Chelsea Development in light of the market crisis and the virtual absence of available credit to fund the massive relocation cost that was needed for the project in its previous format and decided to reduce its expected scope and size. The current proposed development plan for the Chelsea Development is based on the Company's possession of an Investment Contract covering the entire multi-city block area. In addition, RGI has a land lease for one of the plots within the area, and ownership of existing buildings and apartments in several other buildings across the site.

All of the planned projects for the development are currently in the pre-design phase. RGI is currently focusing on completing preliminary designs for a few sub-projects that do not require zoning and seeking to establish zoning for the remaining projects. In addition, the company will seek to prolong the current Investment Contract. Relocation will be completed on a sub-project level after obtaining design approvals and when financing is in place. The 8 individual projects currently planned are expected to be completed by 2012 assuming the necessary financing for construction is organized and design and construction permissions are obtained on a timely basis.

Strategy

RGI's strategy for the Chelsea development is to develop projects individually when construction rights are secured and financing is in place. The Company expects to be able to finance the majority of construction expenses with proceeds generated from pre-sales. The Company's plan is to sell all of the residential and commercial space either prior or after completion.

The Victory Park Project

Building Type:	Commercial, hotel and residential apartments
Gross Area:	25,000 sq.m
Parking Spaces:	133
Year of Completion:	2012

Location

The Victory Park Development is a proposed high-end hotel and residential building located opposite to Victory Park across the river from Moscow City, a new world-famous commercial district located approximately seven kilometers to the west of the Kremlin. The site of the Victory Park development itself is located in a high-end residential area. There is currently a commercial building comprising approximately 5,000 sq.m located on the site that will be demolished prior to construction.

Victory Park is located close to one of the city's main traffic routes, Kutuzovsky Prospect, which continues from New Arbat and leads west directly to Moscow's most prestigious suburbs situated along Rublyovo-Uspenskoye and Mozhayskoe highways. Beginning at the downtown Ukraine Hotel, Kutuzovsky Prospect flows around the Arc de Triumph and passes Victory Park at Poklonnaya Gora. The area includes large Stalin-era residential blocks in the downtown section and elite governmental residential compounds around the Kutuzovskaya metro station.

Design

RGI's current design for the Victory Park Development entails a new 10-storey hotel and residential building with a gross area of 25,000 sq.m. comprised of 200 hotel rooms and approximately 8,000 sq.m of sellable residential space with approximately 133 parking spaces.

The hotel is designed to include all common amenities and facilities of a modern, business hotel and will meet the design standards of most international hotel operators.

Status

The Company has reassessed the expected size and scope of the Victory Park Development in light of the market crisis and the virtual absence of available credit to fund the project at its original scope and after further review of the opportunities and limitations the area zoning dictates and decided to reduce the project's expected scope and size. The current proposed development plan for Victory Park is based on RGI's ownership of the building currently occupying the site and the possession of a long-term land lease. The project is currently in the pre-design stage. The Company's next step for the development is to receive GPZU. The Company expects to complete the project to a shell and core standard during 2012 assuming that the necessary financing for construction is organized and the remaining design and construction permissions are obtained on a timely basis.

Strategy

RGI's strategy for Victory Park is to sell the residential part and engage a branded hotel operator and hold the hotel part thereby generating a source of recurring income for the Company, although RGI would also consider selling hotel outright under appropriate market conditions either before or after the project is completed.

The Media City Project

Building Type:	Commercial, state-of-the-art technology intensive media building
Gross Area:	87,000 sq.m
Parking Spaces:	600
Year of Completion:	2012

Location

The Media City Development is a proposed technology-intensive “media” building intended to be part of a larger project that is currently being undertaken by the City of Moscow to develop VDNKH, an area in northern Moscow, into the city's center for the media industry (Media City).

The subject property is situated in a well known district of Moscow adjacent to the Ostankinsky Telecenter television tower, one of the largest in the world, as well as the all-Russian exhibition centre and landmarks such as “Usadba Ostankino”, Church of Resurrection, Ostankinsky Pond, and Ostankino Park. In addition, a fountain and a concert hall are located on the neighboring site. Public transportation is available via the VDNKh underground metro station, Telecentre overland metro station and bus routes on Akademika Koroleva and Novomoskovskaya streets.

Design

RGI's current design for the Media City Development entails a commercial building that would be ideally suited to various kinds of media companies and related service providers and offers advanced state-of-the-art communications and digital infrastructure along with other relevant amenities and equipment such as video production studios and editing facilities. There are plans to construct a 7-storey media complex with underground parking and an overall area of 87,000 sq.m, roughly 50,000 of which would be leasable commercial office space, and 600 parking spaces. The building would have a modern design and would form the center of Moscow's future Media City.

Status

The proposed development plan for Media City is based on RGI's possession of an Investment Contract and the existing Act of Permitted Use of Land (“ARI”). The project is currently in the pre-design stage. The Company's next steps are to obtain a land lease for the site and to renew and extend the Investment Contract which is expected to take place during 2009. The project is planned to be completed to a shell and core standard in 2012 assuming the necessary financing for construction is organized and the remaining design and construction permissions are obtained on a timely basis. RGI will not begin construction unless financing is secured.

Strategy

RGI's strategy for Media City is to market and operate the building thereby generating a source of recurring income for the Company, although RGI would also consider selling the development outright under appropriate market conditions either before or after the project is completed. RGI will also seek to identify a high-profile anchor tenant for the building. The strategy would be to own and operate the building and market the space to media companies with a view to providing state-of-the-art technological infrastructure.

The Dream Project

Building Type:	Commercial, office building
Gross Area:	18,205
Parking Spaces:	198
Year of Completion:	2011

Location

The Dream Development is a proposed Class A office building located in close proximity to the Garden Ring, one of Moscow's most important transportation routes that surrounds the center of the city, and RGI's Maya and Chelsea Projects in the center of Moscow. The property is close to Prospect Mira Avenue and within a few minutes' walk to the Prospect Mira metro station. A building that will be partially demolished as part of the redevelopment currently occupies the 0.31 hectare site.

Design

RGI's current design for the Dream Development includes a gross area of 18,205 sq.m comprised of 14,000 sq.m of prime leasable office space and 198 underground parking spaces. The design calls for preservation of the existing building's historical façade and complete reconstruction of the remaining portion of the building.

Status

The proposed development plan for Dream is based on RGI having already received detailed design approvals from Moscow City authorities. The next steps for the Company are to secure a land lease agreement for the construction site and to make extensions to the construction permit and Investment Contract. The project is expected to be completed to a shell and core standard during 2011 assuming the necessary financing is organized and the remaining regulatory items are addressed on a timely basis. RGI will not begin construction unless financing is in place.

Strategy

RGI's strategy for Dream is to sell the development outright under appropriate market conditions either before or after the project is completed.

The Maya Project

Building Type:	Commercial, office building
Gross Area:	8,811 sq.m
Parking Spaces:	121
Year of Completion:	2011

Location

The Maya Development is a proposed Class A office building located in close proximity to the Garden Ring—one of Moscow's most important transportation routes that surrounds the center of the city—and RGI's Dream and Chelsea Projects in the center of Moscow. The property is close to Prospect Mira Avenue and within a few minutes' walk to the Prospect Mira metro station. A two-story building which will be demolished as part of the redevelopment currently occupies the 0.36 hectare site.

Design

RGI's current design for the Maya Development includes a gross area of 8,811 sq.m comprised of 5,110 sq.m of prime leasable office space and 121 underground parking spaces.

Status

The proposed development plan for Maya is based on the Company's possession of an Investment Contract. The project is currently in the pre-design stage. The next step for the Company is to complete zoning, obtain a land lease for the plot and approve the GPZU which are expected during 2009. The project is expected to be completed to a shell and core standard during 2011 assuming the necessary financing for construction is organized and the remaining design and construction permissions are obtained on a timely basis.

Strategy

RGI's strategy for Maya is to sell the development outright under appropriate market conditions either before or after the project is completed.

The Kingston Project

Building Type:	Residential, mid-tier apartments
Gross Area:	1,175,500
Primary GLA excl. parking:	770,000 sq.m
Parking Spaces:	5,850
Year of Completion:	2017

Location

The Kingston Development is a residential development in the Moscow Region. The project is located in northwest Moscow close to the MKAD highway, approximately 22km from the Kremlin and 2.5 kilometers from the future Mitino metro station. The project covers a land plot of approximately 77 hectares.

Design

RGI's current design for the Kingston Development involves the construction of a mid-class residential community with a gross area of 1,175,500 sq.m comprising 770,000 sq.m of apartments (including some commercial space on the first floors of buildings) and 5,850 parking spaces. The development will also incorporate the construction of certain social infrastructure and properties including schools and kindergartens will be completed in five separate phases.

Status

The Company has reassessed the economics of the Kingston Development in light of the market crisis and the virtual absence of available credit to fund the significant investment in infrastructure that was needed for the project in its previous format and decided to reduce its expected scope and size. The current proposed development plan for Kingston is based on RGI's possession of an Investment Contract, a long-term land lease and formal indications of support from Regional authorities. The project is currently in the urban planning phase. The Company's next step for the project is to obtain zoning approval which is expected to be obtained during the first half of 2009. Construction is expected to commence in 2011 assuming the necessary financing for construction is organized and the remaining design and construction permissions are obtained on a timely basis. The project would be completed in stages over a period of seven years.

Strategy

RGI's ultimate strategy for Kingston is to sell all of the residential and commercial space in the development. However, given the complexity and early stage of the project, the Company may decide to proceed with developing the project in partnership with a third party developer or to sell the project outright either prior to commencing construction or at some point after completion of certain regulatory or construction milestones. RGI is intending to finance the majority of construction costs for Kingston with proceeds generated from residential pre-sales.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF R.G.I. INTERNATIONAL LIMITED

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of R.G.I. International Limited and its subsidiaries (hereinafter the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, on pages 28 to 76.

Directors' Responsibility for the Financial Statements

2. The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of Guernsey law. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.
5. We also, at the request of the Directors (because the Company applies the Financial Services Authority Listing Rules as if it were a UK Listed Company), review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Directors' statements on internal controls cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control process.
6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Report on Other Legal and Regulatory Requirements

8. We read the other information contained in the Annual Report and considered the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. The other information comprises only the Chairman's Report, the Directors' Report and the Property Report.
9. In our opinion the information given in the Directors' Report is consistent with the consolidated financial statements.
10. The maintenance and integrity of the R.G.I. International Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
11. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
12. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent in written.

Moscow, Russian Federation
20 March 2009

CONSOLIDATED BALANCE SHEET

		31 DECEMBER 2008 US\$'000	31 DECEMBER 2007 US\$'000
	NOTE		
ASSETS			
Non-current assets			
Property development rights and costs	6	652,263	1,804,812
Input VAT		9,723	4,446(*)
Development licenses		160	291
Investment in jointly controlled entity	7	62,080	79,529
Cash deposited against the derivative		-	1,627
Property, plant and equipment	8	11,442	19,143
Total non-current assets		735,668	1,909,848
Current assets			
Receivables and prepayments		2,069	2,822
Inventories	9	37,085	-
Short-term deposit		1,627	-
Cash and cash equivalents	10	21,721	162,774
Total current assets		62,502	165,596
Total assets		798,170	2,075,444
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	11	93,669	391,379
Advance payment under co-investment agreement	12	25,958	31,070
Loans and Borrowings	13	44,070	-
Bonds	15	25,540	32,700
Total non-current liabilities		189,237	455,149
Current liabilities			
Purchase consideration payable	14	31,000	48,000
Trade and other payables	16	7,086	39,669
Deferred income	17	56,780	67,961
Taxes payable		555	144
Total current liabilities		95,421	155,774
Total liabilities		284,658	610,923
Equity			
Share capital	18	1	1
Share premium	18	456,524	456,524
Share - based payment	19	5,730	5,984
Translation reserve	18	(133,822)	71,111
Retained earnings		115,967	744,666
Equity attributable to the Company's equity holders		444,400	1,278,286
Minority interest		69,112	186,235
Total equity		513,512	1,464,521
Total liabilities and equity		798,170	2,075,444

(*) In the financial statements as at 31 December 2007 was presented as Receivables

Approved for issue and signed on behalf of the Board of Directors on 20 March 2009.

Jacob Kriesler

Yoram Evan

Director

Director

Notes on pages 32 to 76 are integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

		PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008 US\$'000	PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007 US\$'000
The excess of acquirer's interest in the net value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost (negative goodwill)		-	675,547
Impairment loss on property development rights	6	(898,333)	-
Impairment of Inventory	9	(1,474)	-
Consulting and other professional services		(6,095)	(4,279)
General and administrative expenses	20	(10,589)	(11,629)
Share - based payment	19	254	(5,984)
Depreciation	8	(421)	(500)
Other income		1,234	945
Operating (loss)/profit		(915,424)	654,100
Finance (loss)/ income, net	21	(16,768)	2,845
Share in result of jointly controlled entity	7	(16,108)	522
(Loss)/profit before income tax		(948,300)	657,467
Income tax benefit/(expense)	11	233,122	(1,058)
(Loss)/profit for the period		(715,178)	656,409
(Loss)/profit is attributable to:			
Equity holders of the Company		(628,699)	656,409
Minority interest		(86,479)	-
(Loss)/profit for the period		(715,178)	656,409
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US\$ per share):			
Basic	22	(5.00)	5.51
Diluted	22	(5.00)	5.45

Notes on pages 32 to 76 are integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	NOTE	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					TOTAL	MINORITY INTEREST	TOTAL EQUITY
		SHARE CAPITAL	SHARE PREMIUM	SHARE-BASED PAYMENT	TRANSLATION RESERVE	RETAINED EARNINGS			
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000			
At 1 January 2008		1	456,524	5,984	71,111	744,666	1,278,286	186,235	1,464,521
Currency translation difference recognized in equity		-	-	-	(204,933)	-	(204,933)	(30,644)	(235,577)
Net income recognized directly in equity		-	-	-	(204,933)	-	(204,933)	(30,644)	(235,577)
Loss for the year		-	-	-	-	(628,699)	(628,699)	(86,479)	(715,178)
Total recognized income for the period		-	-	-	(204,933)	(628,699)	(833,632)	(117,123)	(950,755)
Share based payment	19	-	-	(254)	-	-	(254)	-	(254)
At 31 December 2008		1	456,524	5,730	(133,822)	115,967	444,400	69,112	513,512
	NOTE	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY						MINORITY INTEREST	TOTAL EQUITY
		SHARE CAPITAL	SHARE PREMIUM	SHARE-BASED PAYMENT	TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL		
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2007		1	216,721	-	110	88,257	305,089	-	305,089
Currency translation difference recognized in equity		-	-	-	71,001	-	71,001	8,900	79,901
Net income recognized directly in equity		-	-	-	71,001	-	71,001	8,900	79,901
Profit for the year		-	-	-	-	656,409	656,409	-	656,409
Total recognized income for the period		-	-	-	71,001	656,409	727,410	8,900	736,310
Issue of share capital		-	239,803	-	-	-	239,803	-	239,803
Share-based payment		-	-	5,984	-	-	5,984	-	5,984
Minority interest on acquisition		-	-	-	-	-	-	177,335	177,335
At 31 December 2007		1	456,524	5,984	71,111	744,666	1,278,286	186,235	1,464,521

Notes on pages 32 to 76 are integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

		PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008 US\$'000	PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007 US\$'000
	NOTE		
Cash flow from operating activities before working capital changes			
(Loss)/profit before income tax		(948,300)	657,467
The excess of acquirer's interest in the net value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost (negative goodwill)		-	(675,547)
Impairment loss on property development rights	6	898,333	-
Impairment of inventory	9	1,474	-
Share-based payment	19	(254)	5,984
Depreciation	8	421	500
Share in result of jointly controlled entity	7	16,108	(522)
Interest income		(4,599)	(9,255)
Foreign exchange loss, net		18,025	5,752
Change in fair value of derivatives		2,390	-
Interest expense and discount amortization		5,982	-
Gain from repurchase of bonds		(3,924)	-
Other non-monetary activities		727	846
Net cash outflow from operating activities before working capital changes		(13,617)	(14,775)
Change in trade and other payables		4,325	4,195
Change in receivables and prepayments		289	(4,773)
Change in other taxes payable		435	55
Cash used in operations		(8,568)	(15,298)
Interest received, net		4,599	9,631
Interest paid, net		(4,713)	-
Income tax paid		(191)	(453)
Net cash used in operating activities		(8,873)	(6,120)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents acquired	14, 23	(17,000)	(249,000)
Investment in jointly controlled entity		(9,698)	(12,698)
Co-investment agreement		-	30,000
Investment in deposit		-	(1,627)
Investments in current projects		(115,867)	(102,594)
Purchase of plant and equipment	8	(2,088)	(18,535)
Proceeds from sale of the subsidiary, net of cash disposed of		-	97,200
Net cash used in investing activities		(144,653)	(257,254)
Cash flow from financing activities			
Proceeds from issue of share capital		-	239,803
Proceeds from issue of bonds, net of transaction costs	15	15,572	32,271
Repayment of bonds	15	(18,850)	-
Proceeds from loans	13	44,070	-
Proceeds from borrowings		1,433	-
Repayments of borrowings		(1,433)	(12,545)
Net cash generated from financing activities		40,792	259,529
Effect of exchange rate changes on cash and cash equivalents		(28,319)	3,254
Net decrease in cash and cash equivalents		(141,053)	(591)
Cash and cash equivalents, beginning of the period		162,774	163,365
Cash and cash equivalents, end of the period		21,721	162,774

Notes on pages 32 to 76 are integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. THE R.G.I. INTERNATIONAL LIMITED GROUP

These consolidated financial statements of R.G.I. International Limited (“RGI” or the “Company”) and its subsidiaries and the Group’s interest in jointly controlled entity (together referred to as the “Group”) for the period from 1 January 2008 to 31 December 2008 were authorized for issue in accordance with a resolution of the directors on 20 March 2009.

The Company was incorporated in Guernsey on 14 March 2006 as a limited liability company in accordance with the provisions of The Companies (Guernsey) Law, 2008. As at 31 December 2008, the registered office and business address was Frances House, Sir William Place, St. Peter Port, Guernsey, GY1 4HQ. As at 31 December 2008, the Group had 70 employees (2007: 75 employees).

The principal business activity of the Group is property development and property management in the Russian Federation, with its core business being the development and management of high-end office and retail business and luxury residential and retail properties in central Moscow and the surrounding areas.

The Group’s projects and Development Portfolio are described in Note 6.

2. BASIS OF PREPARATION

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) and with the requirements of The Companies (Guernsey) Law, 2008 under the historical cost convention, as modified by the revaluation of financial assets and liabilities at inception to fair value where such liabilities were entered into at rates other than market interest rates and the valuation of derivatives at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Further details on significant accounting policies are given in Note 3 and details on critical accounting estimates are provided in Note 4.

Geographical and segment reporting

The Group operates in one geographical segment – central Moscow and surrounding areas. As described in Note 6, the Group is involved in the development of residential, office, retail and mixed use types of projects. All of these projects are in various stages of development and no revenue has been derived from them yet.

Recent volatility in global and Russian financial markets

The ongoing global liquidity crisis which commenced in the middle of 2008 has resulted in, among others things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate Of the Central Bank of the Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 34.53 at reporting date.

Due to increased market volatility, one-day MosPrime rate fluctuated between 8.42% p.a. and 10.54% p.a. during December 2008 – February 2009.

The volume of wholesale financing has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The market in Russia for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value has been updated to reflect market conditions at the reporting date. However, in certain cases, the absence of reliable market-based data has required the Group to amend its valuation methodologies. Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consequently by Group entities.

Functional currency and currency used for presentation of these financial statements

The Group operates in the Russian Ruble ("RUR") economic environment. Accordingly, the functional currency of each of the Group's entities is "RUR". The Group's consolidated financial statements have been presented in US dollars ("US\$"), as the Directors believe that this presentation is more appropriate for the users.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, unless they arise on borrowings which are directly related to the cost of construction, in which case they are capitalized as part of property development expenses during the period of construction to the extent they are regarded as an adjustment to interest costs.

In presenting the consolidated financial statements in US dollars, the Group translates all assets and liabilities at the closing exchange rate prevailing at the respective balance sheet date. All income and expenses are translated using a basis that approximates the rate of exchange prevailing at the date of the transactions. Any resulting foreign exchange gains or losses are recognized directly in equity in the translation reserve.

At 31 December 2008, the principal rate of exchange used for translating foreign currency balances was US\$1=RUR 29.3804 (At 31 December 2007 US\$1=RUR 24.5462).

Consolidation of subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date in which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated; unrealized losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest forms a separate component of the Group's equity.

Investment in jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Investments in jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage ownership held by the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealized gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Acquisition of new projects

Acquisition of new projects through acquisition of subsidiaries

Acquisition of new projects, which in substance represent businesses, over which the Group gains control are accounted for under IFRS 3 "Business Combinations". The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business

combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at each exchange transaction represents goodwill. Goodwill acquired in a business combination is initially recognized as an asset and subsequently assessed for impairment annually, or more frequently, if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36 "Impairment of Assets". The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognized immediately in the consolidated income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Acquisition of new projects through acquisition of joint ventures

The accounting policy for acquisition of subsidiaries representing businesses is also applied to the acquisition of jointly controlled entities, to the extent that the Group's share of the separately identifiable assets, liabilities and contingent liabilities acquired is compared to the consideration paid to determine the goodwill or negative goodwill arising on the transaction. Such goodwill is included in the carrying value of the investments in the jointly controlled entities accounted for using the equity method. Negative goodwill is recognized immediately in the Group's share in profit of the jointly controlled entity.

Transactions between equity holders

Where a minority interest is acquired the difference between the book value of the minority interest at the date of the transaction and the consideration paid is accounted for as goodwill. Where the consideration paid is less than the book value of the minority interest, the negative goodwill arising is recorded in the consolidated income statement of the period.

Property development rights and costs

Property development rights

Property development rights represent the rights owned by the Group to either lease land plots, based on land lease contracts entered into with the Moscow City Government ("land use rights") or where an investment contract or co-investment agreement has been entered into with the Moscow City Government providing for the development of a project site ("investment contract").

Land use rights and investment contracts are stated at cost less provisions for impairment, where required. The cost of property development rights held by acquired subsidiaries or jointly controlled entities is recorded at fair value as at the date of acquisition of the subsidiary or jointly controlled entity.

Property development costs

Property development costs represent capitalized costs directly attributable to the construction of properties, including interest and foreign currency movements on borrowings during the construction period to the extent they are regarded as an adjustment to interest, and other costs associated with the acquisition and development

of real estate. Property development costs are carried at cost less provision for impairment where required and are not depreciated. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Property development costs are not depreciated until the asset is available for use.

If any indication of impairment exists, the Directors estimate the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The impairment loss, if any, is recognized in the consolidated income statement in order to reduce the carrying amount to the recoverable amount.

Property development rights and costs are not depreciated until the asset is available for use. Upon completion, property development rights and costs are transferred at their carrying amount to investment property, if the asset is intended to be held by the Group for capital appreciation or for rental, or to inventory, if the asset is intended to be sold.

Investment property is initially measured at cost, including related transaction costs. After initial recognition investment property is carried at fair value. The difference between the fair value of the completed property and the previous carrying value is recognized in the consolidated income statement.

Municipal shares in properties under development

Where the Group enters into an investment contract with the Moscow City Government in order to develop a site, the agreement typically specifies an ownership interest of the Moscow City Government in the completed property, or a specific element of developed site (for example, a cultural centre). In case the Group acquires the ownership interest of the Moscow City Government, the fee payable to the Moscow City Government in respect of this arrangement is included in the cost of property under development when the obligation to the Moscow City Government can be measured with sufficient reliability.

Development licenses

Development licenses include licenses held by an entity in order for it to be authorized to undertake development activities over the period of the license's validity.

Development licenses are stated at cost less amortization and provision for impairment, where required. The deemed cost of development licenses held by acquired subsidiaries is recorded at fair value as at the date of acquisition of the subsidiary.

Amortization is applied on a straight-line basis over a period of five years.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures directly attributable to either acquisition of the asset or bringing the assets into working condition for their intended use. Plant and equipment of acquired subsidiaries are recognized at fair value as at the acquisition date.

Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. Gains and losses arising from the disposal of plant and equipment are included in the consolidated income statement in the period in which the disposal occurs.

Depreciation

Depreciation is recognized in the consolidated income statement on a straight-line basis over their estimated useful lives. The estimated useful lives for current and comparative years are as follows.

	USEFUL LIFE
Office and computer equipment	3 to 5 years
Motor vehicles	3 to 5 years
Buildings	30 to 31 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

At each reporting date, the Directors assess whether there is any indication of impairment of plant and equipment. If any such indication exists, the Directors estimate the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use, the carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the consolidated income statement. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounts receivables and prepayments

Accounts receivables are recorded inclusive of Value Added Tax ("VAT") and are carried at amortized cost, net of provisions for impairment, if any. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the consolidated income statement.

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayment to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the assets will flow to the Group. Other prepayments are written off to the consolidated income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in consolidated income statement.

Non-current receivables represent amounts of VAT related to development projects, which is either to be recovered in the future from the Government Budget or included in property development costs after completion of each projects, if such recovery is not deemed possible.

Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand and deposits with banks on call and with original maturities of less than three months. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included within non-current assets. Cash and cash equivalents are carried at amortized cost.

Bonds

Bonds issued are recognized initially at fair value of the liability determined by proceeds from the issuance, net of transaction costs incurred. In subsequent periods, bonds are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

Borrowings

Borrowings are recognized initially at the fair value of the liability (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognized as interest expense over the period of the borrowings.

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. Trade payables are stated inclusive of VAT, which is reclaimable from the tax authorities upon the receipt of goods and services and the receipt of the appropriate supporting documentation. Payables are initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method.

Purchase consideration payable

Deferred purchase consideration represents liabilities for the purchase of subsidiaries and is recognized at fair value at the acquisition date. These are subsequently measured at amortized cost using the effective interest method. These liabilities do not represent contingent purchase consideration.

Provisions

Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each reporting date, and are included in the consolidated financial statements at their expected net present values using discount rates appropriate to the Group's obligations in the economic environment at each balance sheet date.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation of Guernsey, Cyprus, Israel and the Russian Federation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated income statement except if it is recognized directly in equity because it relates to transactions that are also recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date that are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred tax assets and liabilities are offset if there is a legally unbreakable right to off-set current tax liabilities and assets, and they relate to income base levied by the same tax authority or the same taxable entity.

Derivatives

Derivative financial instruments are carried as trading assets and liabilities at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in consolidated income statement. The Group does not apply hedge accounting.

Revenue recognition

Revenue from the sale of property developments is recognized upon the transfer to the buyer of all significant risk and rewards of ownership and effective control.

No revenues are recognized if there are significant uncertainties regarding recovery of consideration due, the cost incurred or to be incurred cannot be reliably measured, there is a risk of return, or there is continuing management involvement to the degree usually associated with ownership. Transfer of rights and rewards vary depending on the individual terms of the contract of sale.

Deferred income is reflected in the balance sheet as a receivable or, if paid in advance, as a liability.

Rental income from operating leases is recognized in income on a straight-line basis over the lease term.

Income and expense recognition

Income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Employee benefits

Employee benefits include short-term employee benefits such as wages, annual bonuses, awards in accordance with the Long Term Incentive Plan (“LTIP”), short-term compensated absences (such as paid annual leave and paid sick leave) and non-monetary benefits (such as medical care) for current employees.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which represents a defined contribution plan, are accrued when services are provided.

Share-based payment

The Group operates a number of equity-settled share-based compensation plans under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognized as an expense. The total amount to be expensed is determined on the grant date by reference to the fair value of the equity instruments granted, including the impact of the market performance vesting condition and excluding the impact of the non-market vesting condition. For the compensation plans with the non-market vesting condition, this condition is included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions, if any, in the income statement, with a corresponding adjustment to equity. For the market compensation plans with the market performance vesting conditions, the assumption reflecting the probability of meeting this condition is incorporated in the initial valuation of the grant. The resulting expense is recognized over the vesting period, irrespective of whether the market condition is satisfied.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Judgment is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for making this judgment is pricing for similar types of transactions with unrelated parties.

Finance income and expense

Interest income is recognized as it accrues in the consolidated income statement, using the effective interest method.

Finance expense comprises interest expense on borrowings. All borrowing costs are recognised in the consolidated income statement using the effective interest method. Finance expense exclude borrowing cost capitalized to qualified assets. A qualified asset is an asset that necessary takes a substantial period of time to get ready for its intended use or sale. Borrowing costs that are directly attributable to the acquisition or development of a qualifying asset can be capitalized as part of the asset.

Capitalization of borrowing costs is ceased during extended periods in which active development is interrupted. When a development is complete and ceases to be a qualified asset, borrowing costs are expensed as incurred.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on the Director's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Directors also make certain judgments, apart from those involving estimations, in process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and which could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Accounting for acquisitions

The Directors have considered the appropriate accounting for the acquisition during 2007 and concluded that the acquired companies represented businesses on the dates of acquisitions and as such any excess of the net

assets of acquired subsidiaries and the consideration paid should be accounted as negative goodwill and recorded in the consolidated income statement.

Determination of fair values for property development rights at acquisition

During 2007, the Group, through business combinations, has acquired either investment contracts or existing land use rights that provide it with the entitlement to develop the relevant sites. No such acquisitions were made during 2008.

In three major transactions from March 2007 through June 2007 the Company acquired six new development projects in Moscow. All the acquisitions were treated as business combinations and were accounted for under IFRS 3. The six projects were acquired in three major transactions described below:

Chelsea Project

On 16 March, 2007 the Group acquired 100% of the share capital of Tootie Holdings Limited ("Tootie"), for a cash consideration of US\$100 million (the "Chelsea SPA"). Tootie in turn holds 100% of the share capital and voting rights of ZAO Opal. ZAO Opal holds the development rights for the Chelsea Project. The Chelsea Project is a land plot comprising three blocks located to the east of Tsvetnoy Boulevard in central Moscow, two kilometers north of the Kremlin and within the Garden Ring. The project is part of a high-end residential neighborhood, likely to be developed into primarily residential property but also comprising retail space.

Victory Park Project

On 19 March, 2007, the Group entered into the first purchase agreement with Kensington Gore Limited ("Kensington Gore") to develop the Victory Park Project. The Victory Park Project is a proposed development of a land plot of approximately 3,900 sq.m. The Project is located opposite Victory Park, on the edge of the district known as "Moscow City", a new, predominantly commercial district, approximately seven kilometers to the west of the Kremlin. The Victory Park Project itself is located in a high-end residential area.

The Group's investment in the Victory Park Project was structured as a joint venture in which RGI acquired an indirect controlling stake of 68.85% of the share capital of Grikima Holdings Limited, which in turn holds 100% of the share capital and voting rights of LLC Tolling. LLC Tolling holds the title to the building located at the Victory Park Project site.

On 21 June, 2007, before payment of the consideration for 68.85% of the shares of Grikima Holdings Limited, the Group entered into an additional agreement with Kensington Gore through which RGI indirectly purchased 100% of the share capital of Grikima Holdings Limited. The entire consideration paid for the acquisition of 100% of the project was US\$30 million.

Sucreti Holdings Limited

On 27 June, 2007 RGI indirectly acquired 73% of the voting shares of Sucreti Holdings Limited, a Cyprus registered company, for cash consideration of US\$2 million and, in addition, agreed to lend Sucreti Holdings Limited up to US\$190 million. US\$165 million of the loan was used by Sucreti to fund the acquisition of four new Moscow development projects. As a result of the acquisition, the Group obtained control over four new developments.

As at June 27, 2007, Sucreti Holdings Limited held directly and indirectly 100% of the share capital of:

1. Volcatoria Management Limited, which holds 100% of the share capital of its Russian subsidiary, LLC Jevosset. LLC Jevosset holds the development rights for the Kingston Project.

The Kingston Project is a proposed green field residential neighborhood development with some retail space located close to the MKAD interchange, approximately 22 kilometers from the Kremlin and 2.5 kilometers from the Mitino underground station. The original site covered approximately 67 hectares and additional adjacent 10 hectares were purchased later.

2. Startower Holdings Limited, which holds 100% of the share capital of its Russian subsidiary, CJSC Media City. CJSC Media City holds the development rights for the Media City Project.

The Media City Project is a proposed Class A office and media centre development project located on the same site as Ostankino television and radio tower. The Media City Project is close to the VDNKH underground station. The site covers an area of approximately 2 hectares. The project will comprise a gross area of approximately 86,400 sq.m, of which approximately 65,500 sq.m will be above ground and approximately 20,900 sq.m will be underground.

3. Swaingate Enterprises Limited, which holds 100% of the share capital of its Russian subsidiary, LLC Dream. LLC Dream holds the development rights for the Dream Project. The Dream Project is a proposed Class A office development project located in close proximity to the Garden Ring and the Group's Chelsea Project to the east of Tsvetnoy Boulevard.

4. Swainhouse Enterprises Limited, which holds 100% of the share capital of its Russian subsidiary, LLC Maya. LLC Maya holds the development rights for the Maya Project. The Maya Project is a proposed Class A office development project located in close proximity to the Garden Ring and the Group's Chelsea Project.

As a result of the above mentioned acquisitions, the Group recorded in 2007 negative goodwill in the amount of US\$676 million.

Where investment contracts are acquired that provide the Group with only a percentage interest in the completed development, the fair value of the investment contract at the date of acquisition is recorded net of any percentage interest of the Moscow City Government, in order to reflect the fair value of the Group's interest in the site in its current state.

The Group has obtained a report from an international valuation company, DTZ Debenham Zadelhoff Limited's ("DTZ"), setting out the estimated market values for the Group's development rights in their current state at the acquisition date, based on the assumption as to use of each property by a typical local developer in Russia. Had a different assessment been made of the assumptions underlying the valuation report the recorded fair values of the property development rights would have been higher or lower as at the date of acquisition.

The principal assumptions underlying the Directors' estimate of fair value, based on valuation performed by the Industry Consultant, DTZ, are those related to: the forecast sale or rental prices per square meter for residential, retail or office space as appropriate for the individual developments on completion; the forecast yields for retail and office accommodation; the level of construction costs per square meter; the level of developer profit assumed to be required in the current market and the level of financing and other costs.

The quantification of such different assessments is provided below for the acquisitions made during 2007.

- yield achieved on commercial or retail space, between 9% and 10%. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$44 million lower or US\$35 million higher;
- sale prices for office and retail space between US\$5,000 and US\$12,000 per square meter. Rental revenues for office and retail space between US\$350 and US\$675 per square meter and sales prices for residential properties between US\$3,650 and US\$18,000 per square meter. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$513 million lower/higher;
- construction costs, between US\$1,100 and US\$1,800 per square meter. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$271 million lower/higher;
- development profit, between 20% and 30% per project. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$147 million lower/higher;
- gross buildable area is assumed to be 2.1 million square meters. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$313 million lower/higher;
- costs of finance, between 9.5% and 10%. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$38 million lower/higher.

Determination of fair values of other separately identifiable assets, liabilities and contingent liabilities acquired as part of business combinations or other similar acquisitions

The Directors have considered all separately identifiable assets, liabilities and contingent liabilities within each business combination or acquisition of a jointly controlled entity during the period and have engaged specialists to assist with the determination of the fair value of these assets and liabilities. This has involved judgment as part of the purchase price allocation. One of the assumptions was the effective interest rate used to fair value liabilities such as borrowings.

The Directors do not believe that any additional assets and liabilities, particularly intangible assets, have been acquired. However, had they determined that other assets and liabilities qualify to be recognized the goodwill recorded on the consolidated balance sheet or negative goodwill recognized in the income statement would have been different.

Tax legislation

Russian, Cyprus, Guernsey and Israel tax, currency and customs legislations are subject to varying interpretations. See Note 11.

Fair value of derivatives

The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are

validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Impairment of the development rights and costs

As a result of the current economic environment and market conditions, indicators of impairment have been identified. For these properties, the development projects' recoverable amount was determined based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market prices for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Management has reviewed the appraisers' assumptions underlying discounted cash flow models used in the valuation, and confirmed that factors such as the discount rate applied have been appropriately determined considering the market conditions at the balance sheet date. Notwithstanding the above, management considers that the valuation of its investment properties is currently subject to an increased degree of judgement and an increased likelihood that actual proceeds on a sale may differ from the carrying value.

The principal assumptions underlying the recoverable amount of the Group's development portfolio are those related to current market level of: the projected sale and rent prices per square meter; the construction costs per square meter; the size of the projects; the developer profit required and the level of financing and other costs. The principal assumptions made, and the impact on the aggregate valuations by changing these assumptions is as follows:

- sale prices from US\$3,100 to US\$25,000 per square meter and rent from US\$560 to US\$1,500 per square meter per annum. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$252 million lower or US\$257 million higher;
- construction costs, between US\$540 and US\$2,500 per square meter. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$209 million lower or US\$207 million higher.
- yield achieved on commercial or retail space, between 12% and 15%. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$44 million lower or US\$52 million higher;
- development profit, between 18% and 40% per project. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$61 million lower or US\$63 million higher;
- gross buildable area is assumed to be 1.5 million square meters. If this value was to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$81 million lower or US\$68 million higher;
- costs of finance, approximates to 16%. If these values were to differ by 10% from management's estimates, the carrying value of the property development rights would be an estimated US\$16 million lower or US\$17 million higher.

- completion dates of properties held for development between 2011 and 2017. A one year delay in completion across all properties held for development will result in an estimated decrease of the carrying value of the property development rights of US\$106 million.

For additional information on the Group's projects please refer to Note 6 and 7.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).

The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group does not expect IFRS 8 to affect its financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009).

The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).

The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).

The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of

the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009).

The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008).

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009).

The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge

accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009).

The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instrument: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008).

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements (except):

- ***IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7).*** Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are to be recognised as revenue. The rent and proceeds from sale will have to be classified as cash flows from operating activities. The Group will amend its accounting policies accordingly when the amendment becomes effective on 1 January 2009; and
- ***IAS 40, Investment Property (and consequential amendments to IAS 16).*** Property that is under construction or development for future use as investment property is brought within the scope of the

revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The Group will amend its accounting policies accordingly and will apply the amendment prospectively from 1 January 2009.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

6. PROPERTY DEVELOPMENT RIGHTS AND COSTS

As at 31 December 2008, the Group was involved in the development of the following projects:

NAME OF PROJECT	TYPE OF PROJECT	GROUP'S INTEREST TARGET SHARE
Jointly controlled		
Khilkov (1)	Residential	50%
Consolidated		
Ostozhenka	Residential	100%
Kingston	Residential	73%
Victory Park	Mixed Use	100%
Chelsea	Mixed Use	100%
Tsvetnoy	Retail	100%
Zemlianoy	Hotel	100%
Media City	Office	73%
Dream	Office	73%
Maya	Office	73%

(1) Refer to Note 7 for further information

In respect of the Group's current development portfolio, the following property development rights and property development costs are held:

	ACQUISITION OF NEW PROJECTS THROUGH BUSINESS COMBINATIONS	TRANSLATION DIFFERENCE FROM ACQUISITION	PROPERTY DEVELOPMENT COSTS	PREPAYMENTS	IMPAIRMENT	TOTAL RIGHTS AND COSTS AT 31 DECEMBER 2008
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Tsvetnoy	55,870	(5,799)	43,807	20,206	-	114,084
Zemlianoy	19,623	(2,037)	5,661	120	(7,149)	16,218
Ostozhenka	10,311	(1,072)	501	-	-	9,740
Chelsea	503,315	(55,682)	51,533	2,211	(369,752)	131,625
Victory Park	154,135	(17,484)	762	19	(97,454)	39,978
Media City	100,503	(12,733)	1,652	2,474	(74,912)	16,984
Dream	55,452	(6,799)	6,915	53	(8,558)	47,063
Maya	32,410	(3,975)	837	171	(14,602)	14,841
Kingston	661,247	(81,075)	7,297	167	(325,906)	261,730
	1,592,866	(186,656)	118,965	25,421	(898,333)	652,263

The movements in property development rights and property development costs during 2008 were as follows:

NOTE	AT 31 DECEMBER 2007 US\$'000	PROPERTY DEVELOPMENT COSTS US\$'000	RECLASSIFIED TO INVENTORY US\$'000	PREPAYMENTS US\$'000	IMPAIRMENT (* US\$'000	TRANSLATION DIFFERENCE US\$'000	TOTAL RIGHTS AND COSTS AT 31 DECEMBER 2008 US\$'000
Tsvetnoy	89,551	23,806	-	15,461	-	(14,734)	114,084
Zemlianoy	25,440	1,994	-	120	(7,149)	(4,187)	16,218
Ostozhenka	11,266	341	-	(13)	-	(1,854)	9,740
Chelsea	9	15,844	(32,341)	1,432	(369,752)	(101,709)	131,625
Victory Park	164,271	982	-	19	(97,454)	(27,840)	39,978
Media City	105,652	1,139	-	2,474	(74,912)	(17,369)	16,984
Dream	62,617	3,259	-	(2)	(8,558)	(10,253)	47,063
Maya	34,443	687	-	(27)	(14,602)	(5,660)	14,841
Kingston	693,421	6,698	-	167	(325,906)	(112,650)	261,730
	1,804,812	54,750	(32,341)	19,631	(898,333)	(296,256)	652,263

(*) Management has utilized appraisal reports prepared by DTZ as at 31 December 2008 to support their assessment of market value. Refer to Note 4 for further information as to the key valuation assumptions used.

The movements in property development rights and property development costs during 2007 were as follows:

	AT 31 DECEMBER 2006	ACQUISITION OF NEW PROJECTS THROUGH BUSINESS COMBINATIONS	PROPERTY DEVELOPMENT COSTS	PREPAYMENTS	DISPOSALS	IMPAIRMENT	TRANSLATION DIFFERENCE	TOTAL RIGHTS AND COSTS AT 31 DECEMBER 2007
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Butikovskiy	9,133	-	20,399	-	(30,196)	-	664	-
Tsvetnoy	64,530	-	15,035	5,294	-	-	4,692	89,551
Zemlianoy	21,103	-	2,802	-	-	-	1,535	25,440
Ostozhenka	10,408	-	101	-	-	-	757	11,266
Chelsea	-	503,315	81,429	932	-	-	32,475	618,151
Victory Park	-	154,135	1,232	-	-	-	8,904	164,271
Media City	-	100,503	615	-	-	-	4,534	105,652
Dream	-	55,452	4,375	66	-	-	2,724	62,617
Maya	-	32,410	180	235	-	-	1,618	34,443
Kingston	-	661,247	716	-	-	-	31,458	693,421
Taganka	471	-	296	-	-	(801)	34	-
	105,645	1,507,062	127,180	6,527	(30,196)	(801)	89,395	1,804,812

Interest capitalized into the development costs amounted to US\$1,278,220 in 2008 (2007 nil).

The Group, through its Russian subsidiaries, has access to develop its projects either through investment contracts with the Moscow City Government or through land use rights.

The land use rights held are detailed below:

NAME OF SUBSIDIARY THAT HAS ENTITLEMENT TO THE LEASE AGREEMENT	ACQUISITION DATE OF LAND USE RIGHTS	PERIOD OF THE LEASE FROM THE DATE OF ACQUISITION
LLC Ostozhie – Ostozhenka Project	30 June 2006	19 years
LLC Central Market –Tsvetnoy Project	30 June 2006	46 years
LLC Jevosset – Kingston Project	27 June 2007	48 years
LLC Tolling –Victory Park Project	19 March 2007	45 years
LLC Forum – Chelsea Project (part)	22 February 2008	21 years

In common with a number of Moscow real estate developers, the Group will be exposed to certain risks associated with the delay in the commencement and completion of its projects. Certain subsidiaries within the Group have entered into investment contracts in respect of the Chelsea, Dream, Khilkov, Kingston, Maya, Media City, Tsvetnoy and Zemlianoy projects. Such investment contracts specify the term during which construction of the relevant project must be completed. These investment contracts will individually expire at various dates from December 2009 to December 2012. According to the Group's current business plans, construction of a number of development projects is not going to be complete until after the relevant investment contracts have expired. The Group therefore intends to renegotiate the terms of the relevant investment contracts to reflect the revised business plan and timetable approved by the Directors in light of current market conditions. Whilst the Directors expect that the Moscow City Government will accommodate the Group's requests to amend the terms of such agreements, the Moscow City Government may refuse to renew or may terminate the relevant investment contract, if certain project milestones are not achieved or if construction is not completed in accordance with the construction schedule or by the expiration date required in the relevant agreement, on the grounds that the relevant member of the Group did not comply with the substantial requirements of the contract. The Group has also not entered into any land lease agreements in respect of, nor does it hold any title to the buildings located at the Dream, Maya, Media City and Zemlianoy projects and part of the Chelsea project. In the event that the Group fails to successfully renegotiate the relevant investment contract in respect of any of these projects, it would lose all its rights in respect of the relevant project and any investment made in such project to date.

7. INVESTMENT IN JOINTLY CONTROLLED ENTITY

The Group's investment in a jointly controlled entity relates to its 50% interest in Lafar Management Limited, which holds 100% interest in LLC Stolichnoe Podvorie, an entity involved in the development of a luxury residential development at 3 Khilkov Lane, Moscow, Russian Federation.

The following table sets out the assets and liabilities of the joint venture, and the Group's share thereof. In addition, the table presents the Group's share of the results of the joint venture as presented for 2008 and 2007:

	31 DECEMBER 2008 US\$'000	31 DECEMBER 2007 US\$'000
ASSETS		
Non-current assets		
Property development rights and costs	151,604	202,539
Receivables	20	43
Total non-current assets	151,624	202,582
Current assets		
Debtors and prepayments	357	591
Cash and cash equivalents	28	50
Total current assets	385	641
Total assets	152,009	203,223
LIABILITIES		
Non-current liabilities		
Deferred income tax liability	27,751	40,798
Total non-current liabilities	27,751	40,798
Current liabilities		
Borrowings	45,556	34,587
Trade and other payables	173	182
Total current liabilities	45,729	34,769
EQUITY		
Share capital	1	1
Retained earnings	119,077	118,033
Profit of current period	(32,216)	1,044
Translation reserve	(8,333)	8,578
Total equity	78,529	127,656
Total liabilities and equity	152,009	203,223
Investment in jointly controlled entity (50%)	39,265	63,828
Loans to jointly controlled entity	21,408	14,475
Additional investment in jointly controlled entity	1,407	1,226
Total investment in jointly controlled entity	62,080	79,529
SHARE OF RESULT OF JOINTLY CONTROLLED ENTITY	(16,108)	522

The loss for the year of US\$32,216,000 in 2008 (2007: profit of US\$1,044,000) include income of US\$3,114,000 (2007: US\$1,791,000) and expenses of US\$35,330,000 (2007: US\$747,000). The expenses include Group's share in the impairment arising from new valuation of the Khilkov development in the amount of US\$22,977,000.

Loans to jointly controlled entity at 31 December 2008, as detailed below:

BORROWER	ORIGINAL CURRENCY OF LOAN	INTEREST RATE ON LOAN %	NOMINAL	OUTSTANDING AMOUNT AT 31 DECEMBER 2008 US\$'000
			31 DECEMBER 2008 REPAYMENT DATE US\$'000	
LLC Stolichnoe Podvorie	RUR	CBR*1.1	31 Dec 2010	3,306
LLC Stolichnoe Podvorie	RUR	CBR*1.1	31 Dec 2012	14,799
Lafar Management Limited	US\$	6	31 Dec 2012	3,086
Lafar Management Limited	US\$	-	31 Dec 2012	160
Lafar Management Limited	US\$	6	31 Dec 2010	57
Total loans to jointly controlled entity				21,408

Loans to jointly controlled entity at 31 December 2007, as detailed below:

BORROWER	ORIGINAL CURRENCY OF LOAN	INTEREST RATE ON LOAN %	NOMINAL	OUTSTANDING AMOUNT AT 31 DECEMBER 2007 US\$'000
			31 DECEMBER 2007 REPAYMENT DATE US\$'000	
LLC Stolichnoe Podvorie	RUR	CBR*1.1	31 Dec 2010	3,557
LLC Stolichnoe Podvorie	RUR	CBR*1.1	31 Dec 2012	8,074
Lafar Management Limited	US\$	6	24 Sept 2008	2,631
Lafar Management Limited	US\$	-	31 Dec 2012	160
Lafar Management Limited	US\$	6	31 Dec 2010	53
Total loans to jointly controlled entity				14,475

8. PROPERTY, PLANT AND EQUIPMENT

	NOTE	BUILDINGS	OFFICE AND COMPUTER EQUIPMENT	MOTOR VEHICLES	TOTAL
		US\$'000	US\$'000	US\$'000	US\$'000
At 31 December 2006		-	57	69	126
Additions		17,998	135	402	18,535
Depreciation		(372)	(57)	(71)	(500)
Translation reserve		973	4	5	982
At 31 December 2007		18,599	139	405	19,143
Additions		1,668	498	(78)	2,088
Transferring to inventory	9	(6,218)	-	-	(6,218)
Depreciation		(282)	(93)	(46)	(421)
Translation reserve		(3,059)	(23)	(68)	(3,150)
At 31 December 2008		10,708	521	213	11,442

9. INVENTORIES

Inventories were acquired by the Group as part of property development costs or property, plant and equipment. Following the revision in the Group's business strategy the Directors decided to remove certain assets that are no longer needed as part of the revised development plans from property development costs into inventories for selling. In addition, the Directors decided to sell part of the Company's office in Moscow that is no longer used by the Group.

In accordance with the Group's accounting policies the Inventory's carrying value as at 31 December 2008 was written down for US\$1,474,000 to its net realizable value.

Inventories at 31 December 2008 as detailed below:

	NOTE	APARTMENTS		
		US\$'000	OFFICE US\$'000	TOTAL US\$'000
At 31 December 2007		-	-	-
Transferred from property development costs	6	32,341	-	32,341
Transferred from property, plant and equipment	8	-	6,218	6,218
Total before impairment		32,341	6,218	38,559
Impairment (*)		(1,474)	-	(1,474)
At 31 December 2008		30,867	6,218	37,085

(*)In December 2008 the Group recognized a write down of inventory of US\$ 1,474,000 relating to completed apartments. This was due to a decline in market value reflecting current economic conditions in Moscow. The assessment of market value was based upon a Directors' valuation.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, current accounts and amounts placed on deposit, as detailed below:

	31 DECEMBER 2008 US\$'000	31 DECEMBER 2007 US\$'000
Non-interest bearing accounts (in RUR)	118	2,667
Non-interest bearing accounts (mainly in US\$)	463	4,543
Short-term deposit (in US\$)	12,982	86,264
Short-term deposit (in EURO)	7,143	-
Short-term deposit (in ILS)	423	-
Short-term deposit (in RUR)	592	69,300
Total cash and cash equivalents	21,721	162,774

Current accounts held in RUR, and mainly in US\$, are non-interest bearing accounts. Interest is earned on the amounts on deposit at market interest rates (at rates between 0.05% per annum on short term deposits in U.S. Dollar – 38.55% per annum on short term deposits in Russian Ruble).

The Directors intend to continue placing surplus cash resources on deposit, various money market funds with international financial institutions until such time as required by the business operations.

11. INCOME TAX

The income tax expense comprises the following:

	PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008 US\$'000	PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007 US\$'000
Current tax	191	378
Deferred tax	(233,313)	680
Income tax (benefit)/expenses for the period	(233,122)	1,058

The Group operates in four tax jurisdictions and the Company and its subsidiaries are subject to tax at the rates in force in their respective countries of tax residence, the Island of Guernsey, the Republic of Cyprus, the Russian Federation or Israel.

The Company is a Guernsey incorporated entity, which is registered with the Administrator of Income Tax in Guernsey in order to obtain an exempt status. It is not anticipated that any income, other than bank interest income, will arise in Guernsey and therefore the Company will not be subject to tax in Guernsey.

The tax rates for the Group's subsidiaries are currently 10% in Cyprus, 24% in the Russian Federation and 27% in Israel (2007: 10% in Cyprus, 24% in the Russian Federation and 29% in Israel). On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% starting 1 January 2009. As this tax rate was enacted by 31 December 2008, deferred tax balances for the Russian subsidiaries have been calculated based on a 20% tax rate as at 31 December 2008.

Under certain conditions for the Cypriot subsidiaries, interest may be subject to additional tax at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax, thus having an effective tax burden of approximately 15%.

Deferred tax during 2008 comprises the following:

	RECOGNIZED IN INCOME STATEMENT					31 DECEMBER 2008 US\$'000
	31 DECEMBER 2007 US\$'000	IMPAIRMENT US\$'000	EFFECT OF REDUCTION IN TAX RATE US\$'000	OTHER CHANGES US\$'000	TRANSLATION DIFFERENCE US\$'000	31 DECEMBER 2008 US\$'000
<i>Tax effect of deductible/(taxable) temporary differences</i>						
Property development rights	390,426	(215,600)	(18,410)	-	(64,362)	92,054
Property development costs	670	-	(284)	1,020	12	1,418
Investment in joint controlled entity profit	189	-	(26)	-	(31)	132
Other	94	-	(13)	-	(16)	65
Total net deferred tax liability	391,379	(215,600)	(18,733)	1,020	(64,397)	93,669

Deferred tax during 2007 comprises the following:

	RECOGNIZED IN INCOME STATEMENT				
	31 DECEMBER 2006	BUSINESS COMBINATIONS	OTHER CHANGE S	TRANSLATION DIFFERENCE	31 DECEMBER 2007
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>Tax effect of deductible/(taxable) temporary differences</i>					
Property development rights	20,560	348,616	-	21,250	390,426
Property development costs	42	-	625	3	670
Investment in joint controlled entity profit	132	-	55	2	189
Other	88	-	-	6	94
Total net deferred tax liability	20,822	348,616	680	21,261	391,379

The reconciliation between the expected and the actual taxation charge is provided below:

	31 DECEMBER 2008 US\$'000	31 DECEMBER 2007 US\$'000
(Loss)/profit before taxation	(948,300)	657,467
Theoretical tax charge at the applicable statutory rate of 24% (2007: 24%)	(227,592)	157,792
Tax effect of items not deductible or assessable for taxation purposes:		
- Negative goodwill, not subject to tax	-	(162,131)
- (Income) / loss not subject to tax: income free jurisdictions	(3,515)	4,821
- (Income) / loss not subject to tax / not deductible for tax: other	16,718	576
- Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	(18,733)	-
Income tax (benefit)/expense for the period	(233,122)	1,058

12. ADVANCE PAYMENT UNDER CO-INVESTMENT AGREEMENT

On 16 March 2007, the Group concluded a co-investment agreement with Atropa Investment Limited, whereby Atropa Investment Limited participates in financing and construction of the Chelsea Project with further retention and formalization of Atropa Investment Limited's ownership of 3,000 square meters after completion. Atropa Investment Limited has made an advance payment of US\$ 30,000,000 to fulfill its obligations under the co-investment agreement. The Group's liabilities under the co-investment agreement have no recourse to Company.

	ADVANCE PAYMENT UNDER CO INVESTMENT AGREEMENT US\$'000
At 31 December 2006	-
Atropa Investment Limited	30,000
Translation difference	1,070
At 31 December 2007	31,070
Translation difference	(5,112)
At 31 December 2008	25,958

13. LOANS AND BORROWINGS

On 26 March 2008, the Group's subsidiary LLC Central Market entered into a loan facility of US\$100,000,000 with JSC "Commercial Savings Bank of the Russian Federation" ("Sberbank"), the largest banks in Russia. The loan is secured against the proprietary rights of Tsvetnoy Development, the share capital of LLC Central Market and the right of a long term land lease on which Tsvetnoy project is being built. The loan facility has no recourse to the Company.

The loan is being used to fund the construction of the Tsvetnoy Project.

The loan agreement that is in place as at 31 December 2008 is set out below:

LENDER	ORIGINAL CURRENCY OF LOAN	TOTAL AMOUNT OF LOAN FACILITY	NOMINAL INTEREST RATE	REPAYMENT DATE	OUTSTANDING NOMINAL AMOUNT AT 31 DECEMBER 2008
		US\$'000			US\$'000
Sberbank	US\$	100,000	LIBOR+PREMIUM	25 March 2012	44,070
Total loans					44,070

The Loan's fair value as at 31 December 2008 does not differ from its carrying value.

The movement in the loan during the period is as follows:

	SBERBANK US'000
As at 31 December 2007	-
Proceeds from loan	44,070
Accrued interest	1,278
Paid interest	(1,140)
At 31 December 2008	44,208

Accrued interests in the amount of US\$138,000 were paid during the February 2009.

14. PURCHASE CONSIDERATION PAYABLE

Under the sale and purchase agreement for the acquisition of Sucreti Holdings Limited and its subsidiaries (the "Sucreti SPA"), the Group is obligated to pay an additional amount of US\$31,000,000 to the sellers, subject to the fulfillment of the sellers' obligation to provide certain formal documents and approvals related to the Chelsea, Maya, Dream and Media City developments. Such obligations relate, among others, to the provision of certain land lease agreements for few of the above mentioned projects and to the prolongation and the improvement of the Chelsea Development's investment contract according to a specific agreed upon language that is included in the Chelsea SPA. None of the obligations have been fulfilled to-date. The Directors have reviewed the Group's obligation to pay the additional amount under the Sucreti SPA and assessed the potential cash outflow risk and concluded that this risk over the next 12 months is insignificant.

The purchase consideration payable has no recourse to Company.

The movement in purchase consideration payable during the period is as follows:

ACQUISITION OF SUCRETI HOLDINGS LIMITED		US'000
As at 1 January 2007		-
Consideration payable accrued during acquiring the Surety Group (see Note 4)		48,000
As at 31 December 2007		48,000
Paid during the period		17,000
At 31 December 2008		31,000

15. BONDS

On 24 June 2008, the Group completed a second unsecured private Series A Bonds placement in Israel of NIS52,890,000 (US\$16,088,036). This second placement came after the initial placement in Israel of unsecured private Series A Bonds in the amount of NIS127,791,000 (US\$32,432,603) on 11 November 2007 (“the Bonds”).

The Group has obtained a local Israel credit rating from S&P Maalot – the Israeli subsidiary of Standard and Poor’s Rating Services, a division of McGraw-Hills Companies, Inc. – of BBB+/Negative for the issue of the second placement of the Bonds. Following the second placement of the Bonds the total outstanding nominal amount the Bonds was NIS180,681,000 (US\$48,520,639), with maturity scheduled in equal annual installments between November 2010 and November 2012. However, the Bonds become repayable in the event of a downgrade by S&P Maalot from their current rating of BBB+ to BBB- or below. The Bonds bear nominal annual interest in the amount of 8.7%, and an effective rate of 9.63%.

During the second half of 2008, the Group began repurchasing some of its Bonds. As at 31 December 2008, a total of NIS85,431,000 (US\$22,355,582) of the Bonds were repurchased, for a total consideration of NIS71,984,781 (US\$18,850,315), which represents an average discount of 21% to the CPI adjusted face value of the Bonds that were repurchased. The profit arising from the repurchasing activity was recognized in the consolidated income statement in net finance expense. As a result of the repurchasing activity, total outstanding CPI adjusted amount of the Bonds as at 31 December 2008 was NIS100,248,000 (US\$25,540,000).

The Bonds are linked to the Israeli consumer price index (“CPI”). Accordingly, amortized cost is updated for the change in the CPI. The linkage difference is included in the consolidated income statement as finance cost.

In order to protect the Group from possible NIS/US\$ exchange rate changes, the Group in November 2007 entered into a cross-currency interest swap agreement with First International Bank of Israel with respect to the initial placement completed on 11 November 2007. The Group has not entered into such swap agreement with respect to the 24 June 2008 placement. The notional amount of the swap, dates of payments of the interest and the bond installments, interest amount and other significant conditions match those of the first placement of the Bonds.

Following the above-mentioned repurchasing of some of its Bonds, the Group decided to effectively terminate the cross-currency interest swap agreement with First International Bank of Israel, and therefore entered into additional opposite cross-currency interest swap agreements with First International Bank of Israel.

As at 31 December 2008, the aggregate fair value of the cross-currency swap agreements was negative US\$2,132,879. As at 31 December 2007, the fair market value of the cross-currency interest swap agreement

was negative US\$45,000. These amounts were included into trade and other payables (Note 16). The loss is mainly due to the depreciation of the Israeli currency against the US\$ which occurred during the second half of 2008.

The estimated fair value of the swap derivative in the above mentioned amounts was included in the consolidated balance sheet and determined by discounting the aggregated cash flow from the cross-currency interest swap agreements using a 14.67% market interest rate.

	BONDS NIS'000	BONDS US\$'000
At 31 December 2006	-	-
First Capital amount	127,791	32,433
Discount	(639)	(162)
Proceeds from the first bond issue	127,152	32,271
Discount amortization	23	6
Consumer Price Index adjustment	627	161
Translation difference	-	262
At 31 December 2007	127,802	32,700
Second Capital amount	52,890	16,088
Discount	(1,696)	(516)
Proceeds from the second bond issue	51,194	15,572
Total proceeds from the bond issue	178,996	48,272
Total proceeds from the re-purchasing issue	(71,985)	(18,850)
Discount	(13,446)	(3,506)
Re-purchasing capital amount	(85,431)	(22,356)
Amortization at effective rate (Note 21)	18,535	4,825
Coupon interest paid	(11,852)	(3,123)
Translation difference	-	(2,078)
At 31 December 2008	100,248	25,540

16. TRADE AND OTHER PAYABLES

	31 DECEMBER 2008 US\$'000	31 DECEMBER 2007 US\$'000
Liability with regards to city share in Chelsea development	-	32,277
Trade payables	4,632	4,515
Staff payables	-	2,424
Bonds interest accrued	183	392
Cross - currency interest swap	2,133	46
Interest to Sberbank	138	-
Others payables	-	15
Total trade and others payables	7,086	39,669

Staff payables as at 31 December 2007 represented bonuses accrued. It was decided that no bonuses would be paid for 2008 and therefore, no accrual was reflected as at 31 December 2008.

Liability with regards to city share in Chelsea development as at 31 December 2007 represented payable to OAO Group of Companies PIK for the apartments purchases (Note 24). Consideration for these apartments was paid in full during 2008.

17. DEFERRED INCOME

On 20 December 2007, the Group sold its wholly-owned subsidiary, Nospelt Limited (Butikovsky Project), for total cash consideration of US\$97,200,000.

Under the terms of the sale of Nospelt Limited, the Group has agreed to procure the transfer of the ownership rights to the Butikovsky Project to Nospelt Limited. In the event that such ownership right is not transferred to Nospelt Limited by 30 June 2009, the purchaser may require that the Group re-purchases Nospelt Limited for US\$97,200,000 plus costs and any liabilities the purchaser has incurred.

	SELLING NOSPELT LIMITED
	US\$'000
Total deferred income at 31 December 2006	-
Total purchase consideration received in cash	97,200
Cost of development	(30,196)
Translation difference (on consideration)	957
Total deferred income at 31 December 2007	67,961
Translation difference	(11,181)
Total deferred income at 31 December 2008	56,780

The Directors have reviewed the remaining steps that need to be completed before the ownership rights to the Butikovsky Project can be registered to Nospelt Limited and assessed the likelihood of this occurring prior to 30 June 2009 and concluded that no impairment is needed.

18. SHARE CAPITAL

Share capital

The Company's share capital is denominated in British pounds ("GBP"). The Company's shares are stated at their par (nominal) value.

In March 2007, the Company raised an additional US\$251,000,000 (before expenses) at US\$10.44 per share in a follow-up offering to the public. The Company issued 22,730,000 shares, and additional 1,350,834 shares due to the exercise of the over-allotment option granted to Morgan Stanley Securities Limited.

	NUMBERS OF SHARES	NOMINAL AMOUNT IN ACTUAL GBP	CARRYING VALUE IN US\$
Share capital as at 31 December 2006	101,706,144	0.41	0.81
Issued and fully paid ordinary shares with a nominal value of 0.000000004 GBP each during 2007 year	24,080,834	0.1	0.2
Share capital as at 31 December 2007	125,786,978	0.51	1.01
Share capital as at 31 December 2008	125,786,978	0.51	1.01

The share capital of the Company comprises only ordinary shares, all of which bear voting rights and the right to dividends as approved at the General Meeting of the Company. No other additional rights or preferences are attached to this class of shares.

The shareholding structure as at 31 December 2008 was as follows (see also Note 19):

SHAREHOLDERS	TOTAL SHARES HELD	OWNERSHIP
		IN THE COMPANY %
D.E.S. Commercial Holdings Limited	60,592,090	48.17
SSF III Fathers Holdings limited	11,280,499	8.96
Kensington Gore Limited	8,702,137	6.92
Lansdowne Partners International Limited	6,700,000	5.33
Charlemagne Capital (IOM) Limited	5,226,560	4.16
Other (none individually greater than 3%)	33,285,692	26.46
Total	125,786,978	100.00

The shareholding structure as at 31 December 2007 was as follows:

SHAREHOLDERS	TOTAL SHARES HELD	OWNERSHIP
		IN THE COMPANY %
D.E.S. Commercial Holdings Limited	50,994,832	40.54
SSF III Fathers Holdings limited	11,090,909	8.81
Kensington Gore Limited	8,702,137	6.92
Fidelity International Limited	7,040,885	5.59
Lansdowne Partners International Limited	6,700,000	5.33
Henderson Global Investors	6,393,900	5.08
Charlemagne Capital (IOM) Limited	5,226,560	4.16
Other (none individually greater than 3%)	29,637,755	23.57
Total	125,786,978	100.00

Share premium

The share premium represents the excess of contributions received over the nominal value of the shares issued.

Translation reserve

In presenting the consolidated financial statements in US dollars, the Group translates all assets and liabilities at the closing exchange rate prevailing at the respective balance sheet date. All income and expenses are translated using a basis that approximates the rate of exchange prevailing at the date of the transactions. Any resulting foreign exchange gains or losses are recognized directly in equity in the translation reserve.

Dividends paid or payable

No dividends were paid for 2007 and none will be paid for 2008.

19. SHARE-BASED PAYMENT

On 13 April 2007, the board of Directors of the Group approved a long-term incentive plan (the "Plan"). According to the plan, eligible directors and employees are entitled to acquire Shares in the Company for no consideration subject to vesting conditions.

The eligible shares vest in two equal amounts after the second and the third years following the grant date. The total number of shares which vest is conditional upon the achievement of specific performance conditions being the growth in the Group's net asset value (NAV) and total shareholders' return (TSR).

In accordance with the terms of the LTIP the Company has granted 1,700,000, 622,000 and 308,000 awards to the executive Directors and to non-Board employees of the Group, on 4 May 2007, 4 June 2007 and 21 December 2007, respectively. During 2008, 496,000 awards were forfeited (during 2007: 13,000). As a result,

as at 31 December 2008 the Executive Directors and other employees of the Group were awarded and still have outstanding 1,700,000 and 421,500 awards respectively (as at 31 December 2007: 1,700,000 and 917,000 respectively). The maximum number of shares issuable under the plan comprises 2.1 per cent of the total number of RGI's issued ordinary shares.

The Group estimates the total value of the award as US\$8,545,630 (2007: US\$24,864,820). The Group amortizes the value of the Plan from the grant day until the end of the vesting period and the Group's expenses are recognized in the income statement with a corresponding increase in Shareholders' equity. In 2008 the Group recognized income of US\$254,000 in respect of the plan. (2007: US\$5,984,000 expenses).

The activity in relation to the Plan is as follows:

	GRANT DATE 4 MAY 2007	GRANT DATE 4 JUNE 2007	GRANT DATE 21 DECEMBER 2007	TOTAL	WEIGHTED- AVERAGE GRANT- DATE FAIR VALUE US\$
Ordinary shares under option (thousand)					
Balance at 31 December 2006	-	--	-	-	
Granted	1,700	622	308	2,630	9.85
Forfeited	-	(13)	-	(13)	9.43
Outstanding as at 31 December 2007	1,700	609	308	2,617	
Number of participants	4	58	18	80	
Expense incurred during the year (US\$ thousands)	4,670	1,279	35	5,984	
Balance at 31 December 2007	1,700	609	308	2,617	9.67
Forfeited	(100)	(235)	(161)	(496)	3.57
Outstanding as at 31 December 2008	1,600	374	147	2,121	
Number of participants	3	33	8	44	
Expense incurred during the year (US\$ thousands)	(65)	(385)	196	(254)	

The fair value of services received in return for the shares is based on the fair value of the shares granted, measures based upon the following model and assumptions:

	L TIP DATED 4 MAY 2007	L TIP DATED 4 JUNE 2007	L TIP DATED 21 DECEMBER 2007
Weighted average fail value (% of amount granted)	67%	64%	84%
Option pricing model used	Monte-Carlo	Monte-Carlo	Monte-Carlo
Key assumptions used – at the grant dates:			
Share price at the grant dates (US\$)	11.9	11.24	9.63
Exercise price (US\$)	-	-	-
Expected volatility (%)	26.98-30.62	26.98-30.62	26.98-30.62
Expected correlation between RGI and EPRA index (%)	13.74-14.19	13.74-14.19	13.74-14.19
Range of risk-free rates (%)	2.17-2.5	2.17-2.5	2.17-2.5
Expected option terms (years)	2-3	2-3	2-3
Remaining period	1-2	1-2	1-2
Expected dividends (per year)	-	-	-

Expected volatility is the fluctuation in the return of the underlying stock during the option's contracted term. Volatility is determined as annualized standard deviation of the continuously compounded rates of return on the stock over a period of time. In an attempt to estimate the expected volatility, the short-term standard deviation was calculated (standard deviation during the maximum possible period: from IPO until grant date).

As of 31 December 2008, there was US\$3,086,744 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. (31 December 2007: US\$19,163,830).

20. GENERAL AND ADMINISTRATIVE EXPENSES

	PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008 US\$'000	PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007 US\$'000
Wages and salaries	6,664	6,070
Representative expenses	1,262	1,694
Property tax	563	283
Rent	443	157
Other	1,657	3,425
Total general and administrative expenses	10,589	11,629

21. FINANCE (LOSS)/INCOME, NET

	PERIOD FROM 1 JANUARY 2008 TO 31 DECEMBER 2008 US\$'000	PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007 US\$'000
Interest income	4,599	9,631
Foreign exchange (loss, net)	(18,025)	(5,752)
Bank charges	(172)	(613)
Interest expenses on bonds	(4,825)	(376)
Gain on re-purchase of bonds	3,924	-
Loss on derivative transaction	(2,390)	-
Other finance gains / (expenses)	121	(45)
Total finance (loss) / income	(16,768)	2,845

22. EARNINGS PER SHARE

The basic and dilutive earnings per share has been calculated by dividing the net profit attributable to the equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	RESULT US\$'000	SHARES	PER SHARE US\$
Loss attributable to ordinary equity holders of the Company for the period ended 31 December 2008	(628,699)		
Weighted average number of ordinary shares outstanding during the period ended 31 December 2008		125,786,978	
Basic and diluted earnings per share for the loss attributable to the equity holders of the Company during the period (expressed in US\$ per share)			(5.00)

The basic earnings per share for 2007 are presented below:

	RESULT US\$'000	SHARES	PER SHARE US\$
Profit attributable to ordinary equity holders of the Company for the period ended 31 December 2007	656,409		
Weighted average number of ordinary shares outstanding during the period ended 31 December 2007		119,123,514	
Basic earnings per share for the profit attributable to the equity holders of the Company during the period (expressed in US\$ per share)			5.51

The diluted earnings per share for 2007 are presented below:

	RESULT US\$'000	SHARES	PER SHARE US\$
Profit attributable to ordinary equity holders of the Company for the period ended 31 December 2007	656,409		
Weighted average number of ordinary shares outstanding during the period ended 31 December 2007		119,123,514	
Weighted average number of shares issuable under LTIP assuming their vesting on the balance sheet date (Note 19)		1,296,127	
Total shares used for diluted earnings per share calculation		120,419,641	
Diluted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US\$ per share)			5.45

Due to the serious downturn in the global economies, the Group's management considered that there is little chance that the specific performance conditions, stated by the LTIP would be achieved, and consequently, the shares would be issued. Therefore the restricted shares issues under LTIP were not considered as dilutive for earnings per share as for 2008.

23. BUSINESS COMBINATIONS

During 2007 the Group acquired six development projects in Moscow and the Moscow region (see Note 4). The aggregated separately identifiable assets and liabilities of the acquired development projects, the Group's share acquired thereof and the resulting negative goodwill from the acquisitions are set out below:

	ATTRIBUTED FAIR VALUE
	US\$'000
Value of net assets of subsidiaries	1,149,882
Less: negative goodwill	(675,547)
Less: minority interest	(177,335)
Total purchase consideration	297,000
Payment of consideration:	
Paid in cash	249,000
Deferred consideration	-

24. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group considers its risks in respect of financial risks (credit, foreign exchange, liquidity and interest rate), operational risks and legal risks. The primary objective of the Group's financial risk management is to establish risk limits, and then ensure that exposure to risk stays within these limits. The Group is continuing to develop its operational and legal risk management functions as the Group's activities expand, and the current arrangements together with the improvements being introduced are intended to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks both currently and in the future.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

For the purposes of its capital management the Group analyses the gearing ratio, which is computed as net debt divided by total capital plus net debt. However, since the Group has only recently started debt raising the current debt ratio is significantly lower than Directors expect to be in the future.

Fair Value of Financial Instruments

The Group's financial assets consist of cash and cash equivalents and current and non-current receivables. The Group's financial liabilities consist of bonds, loans, derivative instruments and payables. All of the Group's financial assets and liabilities, except for the cross-currency swap contract (see Note 15), are measured at amortized cost which approximates fair value. The swap contract is presented at its fair value measured based on a bank quote. The fair value of other financial assets and liabilities is identical or close to their amortized value included in the balance sheet.

Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay all amounts in full when due. Financial assets, which potentially subject the Group to credit risk, consist principally of accounts receivable, long-term loans, swaps, prepayment and cash and cash equivalents. There are no significant concentrations of credit risk within the Group.

The carrying amount of accounts receivable, loans and balances with banks represents the maximum amount that the Group is exposed to credit risk, which in 2008 was US\$46,825,000 (2007: US\$181,698,000).

46% of the above total credit exposure is related to cash and cash equivalents (2007: 90%)

Cash and cash equivalents are placed in high credit quality financial institutions, which are considered at the time of the deposit to have a minimal risk of default. The Directors believe the risk of default of these institutions is low, but will continue to monitor future placing of deposits in order to minimize credit risk exposure. 34% of cash balances are held with Goldman Sachs, 34% with ING Bank NV, 21% with First International Bank of Israel and 11% with UBS AG Bank (2007: 46% were held with ING Bank NV, 36% with UniCredit Bank and 12% with UBS AG Bank).

46% of the above total credit exposure is related to the loans issued to jointly controlled venture (see the Note 7) cash and cash equivalents (2007: 8%). The Directors consider the credit risk associated with this balance to be low since the Group is capable to control the joint venture.

The remaining credit risk exposure is associated with trade and other receivables. Although collection of receivables could be influenced by economic factors, the Directors believe that there is no significant risk of loss to the Group beyond any provision already recorded.

Though there are no formal objectives, policies and processes for management of credit risk at the level of the Company, credit risk is managed at the shareholder level.

Foreign exchange risk

The functional currency of the Group is the Russian Ruble. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. At 31 December 2008, the Group was exposed to foreign exchange risks arising from currency exposures, primarily in respect to US dollars. A foreign exchange risk arises from recognized monetary assets and liabilities. The Group's policy is not to enter into any currency hedging transactions in respect of these risks. However, since the majority of expenditure and revenues of the Group are denominated in both RUR and US dollars, the Directors allocate Group's cash resources based on the forecasted currency outflows.

Had the US dollar exchange rate on 31 December 2008 changed by 10% the change in the carrying value of the dollar - denominated financial assets and liabilities would be as follows:

	CARRYING AMOUNT	CARRYING AMOUNT AFTER 10% INCREASE IN US\$ EXCHANGE RATE	CARRYING AMOUNT AFTER 10% DECREASE IN US\$ EXCHANGE RATE
	US\$'000	US\$'000	US\$'000
US\$ denominated financial assets	18,336	20,170	16,502
US\$ denominated financial liabilities*	(100,932)	(111,025)	(90,839)
US\$ denominated financial assets net	(82,596)	(90,855)	(74,337)
Net effect on profit and loss		(8,259)	8,259

As at 31 December 2007:

	CARRYING AMOUNT	CARRYING AMOUNT AFTER 10% INCREASE IN US\$ EXCHANGE RATE	CARRYING AMOUNT AFTER 10% DECREASE IN US\$ EXCHANGE RATE
	US\$'000	US\$'000	US\$'000
US\$ denominated financial assets	92,457	101,702	83,211
US\$ denominated financial liabilities*	(38,817)	(42,698)	(34,935)
US\$ denominated financial assets net	53,640	59,004	48,276
Net effect on profit and loss		5,364	(5,364)

* Including NIS denominated bonds linked to Israeli CPI in the amount of equivalent to US\$25,540,000 (2007: US\$32,700,000). Since the Group entered into cross-currency interest rate swap contracts (see Note 15) for the purposes of managing foreign exchange risk the Directors consider these bonds to be US dollar denominated liabilities.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008				At 31 December 2007			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Russian Roubles	65,747	(5,187)	-	60,560	88,374	(36,951)	-	51,423
US Dollars	18,336	(75,208)	-	(56,872)	95,248	(50,424)	-	44,824
EURO	7,172	-	-	7,172	16	-	-	16
New Israeli Shekels	432	(25,723)	(2,133)	(27,424)	13	(33,092)	(46)	(33,125)
	91,687	(106,118)	(2,133)	(16,564)	183,651	(120,467)	(46)	63,138

Liquidity risk

Liquidity risk is defined as the risk that the maturities of assets and liabilities do not match. The Group structures its assets and liabilities in such a way that liquidity risk is minimized. Prudent liquidity risk management implies maintaining sufficient cash and ensuring the availability of additional funding.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements.

The maturity dates of the Group's financial assets and liabilities are as following:

NOTE	MATURITY DATE					NOT DEFINED US\$'000	TOTAL US\$'000
	2009 US\$'000	2010 US\$'000	2011 US\$'000	2012 US\$'000	2012 US\$'000		
Financial assets:							
Input VAT	-	6,362	-	-	-	3,361	9,723
Loans to jointly controlled entity	-	3,363	-	18,045	-	-	21,408
Investment in deposit	1,627	-	-	-	-	-	1,627
Current receivables	123	-	-	-	-	-	123
Inventories	37,085	-	-	-	-	-	37,085
Cash and cash equivalents	21,721	-	-	-	-	-	21,721
Total financial assets	60,556	9,725	-	18,045	-	3,361	91,687
Financial liabilities:							
Bonds	2,333	10,572	10,243	9,855	-	-	33,003
Loans and borrowings	2,613	2,613	2,613	46,248	-	-	54,087
Trade and other payables	7,086	-	-	-	-	-	7,086
Purchase consideration payable	14	-	-	-	-	31,000	31,000
Taxes payables	555	-	-	-	-	-	555
Total financial liabilities	12,587	13,185	12,856	56,103	-	31,000	125,731

The purchase consideration payable in the amount of US\$31,000,000 was recorded in the Group's consolidated balance sheet as a current liability although, as described in Note 14 above, the Directors regard the cash outflow risk resulting from this liability over the next 12 months as insignificant.

The maturity dates of the Group's financial assets and liabilities at 31 December 2007 were as following:

	MATURITY DATE					NOT DEFINED US\$'000	TOTAL US\$'000
	2008 US\$'000	2009 US\$'000	2010 US\$'000	2011 US\$'000	2012 US\$'000		
Financial assets:							
Input VAT	-	-	-	-	-	4,446	4,446
Loans to jointly controlled entity	2,631	-	3,610	-	8,234	-	14,475
Investment in deposit	-	-	542	542	543	-	1,627
Current receivables	329	-	-	-	-	-	329
Cash and cash equivalents	162,774	-	-	-	-	-	162,774
Total financial assets	165,734	-	4,152	542	8,777	4,446	183,651
Financial liabilities:							
Bonds	2,987	3,137	14,265	14,155	14,272	-	48,816
Current trade and other payables	87,669	-	-	-	-	-	87,669
Taxes payables	144	-	-	-	-	-	144
Total financial liabilities	90,800	3,137	14,265	14,155	14,272	-	136,629

Interest rate risk

The Group's interest rate risk arises from long-term borrowings and bonds. The Sberbank loan, issued at variable rates expose the Group to cash flow interest rate risk. The Bonds issued at fixed rates expose the Group to fair value interest rate risk. The Group is also exposed to variations in interest rates in relation to the interest

earned on cash deposits. Reductions in interest rates would reduce the level of income earned by the Group on the surplus cash assets within the Group.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

As of 31 December 2008 the amount of accrued interest on interest bearing loans and liabilities was insignificant.

For the Sberbank loan the Group is exposed to changes in the 6 months US\$ LIBOR. As at 31 December 2008 an increase of 100 basis points in the 6 months US\$ LIBOR would result in an interest expense increase of US\$440 thousand per annum.

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, the Directors are of the opinion that no material losses will be incurred in respect of claims received.

At 31 December 2008 the Group was not engaged in any material litigation proceedings.

Apartments purchased from PIK and classified as inventory

During 2007, the Group has purchased apartments from OAO Group Of Companies PIK ("PIK"), as part of the Group's development plan for the Chelsea Development, for a total consideration of RUR789,167,000 (US\$26,860,000). The apartments were originally planned to form part of the City Share Payment. Following the revisions in the Group's strategy and the change in scope and schedule of the Chelsea Development, the Directors have decided to dispose of the apartments. Accordingly, these assets were reclassified from property development rights and costs to inventory (see note 6 and 9 to the financial statements). Consideration for these apartments was paid in full during 2008. The Group has signed an acceptance agreement with PIK and took possession over the apartments although ownership rights have yet been registered under the Group's name.

The Group intends to dispose of the apartments in a way similar to the way it acquired them from PIK and will undertake to register the apartments under the names of the buyers immediately upon the apartments being registered by PIK in the Group's name. As long as the apartments are not registered on the Group's name, there is a risk that should PIK enter insolvency procedures, the registration process might not be completed and the apartments might be subject to claims by PIK's creditors. The Directors have reviewed the disposal process and assessed the risk involved and concluded that impairment is not needed at this point.

Tax legislation

The Company has exempt tax status in Guernsey. The Directors manage the Group in such a manner that this is not expected to change. The Group also operates in the Cypriot, Israeli and Russian tax jurisdictions. Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The Directors' interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the

legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the period of review. Under certain circumstances, reviews may cover longer periods.

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2006, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation that was introduced on 1 January 1999 provides the possibility for the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however it may be significant.

The Group considers it has met the organizational, legal, tax filing and other obligations of the countries in which the Company and its subsidiaries are incorporated. The Directors believe that their interpretation of the relevant legislation is appropriate and the Group tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2008 no provision for tax liabilities was recorded.

Capital expenditure commitments

At 31 December 2008, the Group had contractual capital expenditure commitments in respect of property development totaling US\$44,825,000 (2007: US\$83,211,000). The Group has already allocated the necessary resources in respect of these commitments.

Guarantees

During the reporting period the Group has not granted or provided collateral to third parties, except for collateral on deposit in amount of US\$1,627,000 to guarantee the cross-currency swap agreement and the deal with Sberbank in relation Tsvetnoy Project (See Note 13). As at 31 December 2008 the swap was effectively terminated, accordingly the deposit for US\$1,627,000 was restructured to short-term deposit.

Insurance policies

The Group holds insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risk. The total insurance coverage is US\$57,338,000 (2007:57,334,000).

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under existing legislation, the Directors believe that there are no significant liabilities for environmental damage.

Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and strong economic growth. Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

26. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, related parties are defined in accordance with *IAS 24 "Related Party Disclosures"*.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2008 are detailed below:

Loans issued and related interest during 2008:

	LITONOR FINANCIAL LIMITED US\$'000	LAFAR MANAGEMENT LIMITED US\$'000	STOLICHNOE PODVORIE LLC US\$'000
Total outstanding loans and accrued interest due from related parties on 31 December 2007	80	2,764	11,631
Loans provided to related parties during the period	(80)	382	6,644
Translation difference	-	-	(1,914)
Total outstanding loans and accrued interest due from related parties on 31 December 2008	-	3,303	18,105
Total interest income during 2008	-	157	1,744

Loans issued and related interest during 2007:

	LITONOR FINANCIAL LIMITED US\$'000	LAFAR MANAGEMENT LIMITED US\$'000	STOLICHNOE PODVORIE LLC US\$'000
Total outstanding loans and accrued interest due from related parties on 31 December 2006	-	2,446	-
Loans provided to related parties during the period	80	130	10,918
Total outstanding loans and accrued interest due from related parties on 31 December 2007	80	2,764	11,631
Total interest income during 2007	-	150	713

Lafar Management Limited is a jointly controlled entity in which the Group holds an economic interest of 50%. Litonor Financial Limited holds the remaining 50% of the voting shares of Lafar Management Limited. Lafar Management Limited holds 100% of the share capital of its Russian subsidiary, LLC Stolichnoe Podvorie

Key management remuneration

In the reporting period, key management of the Group received compensation in the form of salary and other benefits classified as short-term in accordance with *IAS 19 "Employee Benefits"*. The total remuneration and benefits accrued to the Directors was US\$3,267,436 (2007: US\$5,053,000). There are no other individuals who are not Directors who are considered to be key management in the Group.

As mentioned in Note 19, during 2007 and 2008 years 1,700,000 awards were granted to executive Directors as a part of its LTIP. The total executive Directors' award value was estimated at US\$7,083,150 (2007: US\$17,244,052), with the portion amortized in the 2008 year being US\$95,340 (2007: US\$4,456,204).

There are no long-term remunerations and benefits provided by compensation agreements with the key management and non-executive directors, other than the described above LTIP.

Transactions in relation of repurchasing Bonds

As detailed in Note 15, during the second half of 2008, the Group began repurchasing some of its Bonds. A total of NIS13,425,000 (US\$3,526,750) of the Bonds were repurchased from D.E.S. Commercial Holdings Limited, for a total consideration of NIS11,814,000 (US\$3,103,540).

D.E.S. Commercial Holdings Limited is entity beneficially owned by Mr. Boris Kuzinez. Mr. Boris Kuzinez owns 90% of D.E.S. Commercial Holdings, which owns in its turn 48.17% of the Group.

Other transactions with related parties:

	RELATED PARTY	TRANSACTIONS VALUE DURING THE PERIOD US\$'000	OUTSTANDING AMOUNT AT 31 DECEMBER 2008 US\$'000
Construction agreements (revenue for the Group)	Inpromtex ZAO	291	291
	Total	291	291
Construction agreements (expenditure for the Group)	Solarium Properties Limited	534	-
	Directway Investments Limited	-	370
	Total	534	370
Purchase of equipment (expenditure for the Group)	Solarium Properties Limited	7	-
	Total	7	-
Rent contracts (revenue for the Group)	Skladskaya Baza TNP LLC	7	-
	Khorog Investments Limited	3	-
	Directway Investments Limited	9	-
	Activ LLC	3	1
	Paritet Limited LLC	3	-
	Privat Standard LLC	3	-
	Forward LLC	3	-
	Total	31	1

All of the transactions listed above are with parties beneficially owned by the Group's founder, Chief Executive and controlling shareholder, Boris Kuzinez. The amounts relate to rent and development services in accordance with rental, construction and design agreements between those entities and the Group. The majority of these arrangements has either been terminated or is not expected to continue in future periods.

Transactions with related parties during 2007 were as follows:

	TRANSACTIONS VALUE DURING THE PERIOD US\$'000	OUTSTANDING AMOUNT AT 31 DECEMBER 2007 US\$'000
Construction agreements (revenue for the Group)	301	-
Construction agreements (expenditure for the Group)	1,249	(1,885)
Design agreements (revenue for the Group)	140	-
Purchase of equipment (expenditure for the Group)	49	-
Rent contracts (revenue for the Group)	28	-
Acquisition of premises (expenditure for the Group)	14,960	-

27. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Since December 2008 the financial situation globally has continued to deteriorate. The Russian market has experienced significant declines in the level of manufacturing and companies are continuing to announcement either reductions to the working week, pay freezes or significant job losses. As a result market values within the property industry have continued to decline. In particular, Class A commercial property has experienced declines in market rentals in the range of 15 to 25% reflecting market vacancies as businesses try to sub-lease excess space. For the potential financial impact of these market movements refer to our sensitivity analysis in regards to development rights and cost in Note 4.

Bonds re-purchase

In 2009 the Group continued to repurchase its bonds. On 11 January 2009 NIS2,800,000 (US\$718,000) of the Bonds were repurchased, for a total consideration of NIS2,240,000 (US\$574,000).

Other than the matters discussed above, there were no other matters or circumstances, which have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.
