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**R.G.I.  
INTERNATIONAL  
LIMITED**

**ANNUAL REPORT  
AND ACCOUNTS  
31 DECEMBER  
2006**

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# CHAIRMAN'S STATEMENT

R.G.I. International Limited (“the Company” or “RGI”) was incorporated on 14 March 2006. Since then we have worked to put in place the assets, the financing and the corporate governance structures that will enable us to realise the significant opportunities that exist in the Moscow real estate sector. I would therefore like to take the opportunity of this first formal communication since listing on the AIM market of the London Stock Exchange (“AIM”) to welcome all new shareholders to the Company.

## OVERVIEW

RGI's core business is the development and management of high-end office, retail and residential properties in central Moscow and the surrounding areas. The Chief Executive, Boris Kuzinez, has a long track record in the Moscow marketplace and is widely recognised as one of the leading developers. Prior to the creation of RGI in 2006, he has been involved in the development of 15 projects in Moscow since the early 1990s, comprising approximately 140,000 square metres.

The Company is focused on developments within or close to the Sadovoe Koltso, Moscow's “Garden Ring” road in central Moscow, where premium prices can be sought and demand/supply economics are favourable in the residential, office and retail market segments in which the Company operates.

The Company and its subsidiaries are referred to as “the Group” throughout this report.

## ADMISSION TO AIM

The most important development during 2006 was the Company's Admission to AIM on 13 December 2006 (the “Admission”). The Admission has enhanced RGI's standing in the market and will allow the Company to access finance to progress current and future developments.

A total of approximately 32 million new ordinary shares in the Company were issued (with the Over-allotment Option being fully exercised) at an offer price of US\$6.00 per share, raising a total of approximately US\$192 million. Upon Admission, the Company was capitalised at US\$611 million. The Board has been encouraged by the rise in the Company's share price, which has seen RGI's market capitalisation rise to US\$907 million at yesterday's closing price.

## STRATEGY

The Group's overall strategy is to target the high-end, prime location office, retail and residential property market segments in central Moscow and the surrounding areas.

The Group intends to complete the construction of its current development projects and, in general, to retain and manage the completed office and retail properties within such developments, although all or part of such developments may be sold in the right market conditions, if doing so, in the view of the Directors, will optimise shareholder value. The Group intends to dispose of its completed residential property developments. The Group also intends to identify and invest in additional development projects in prime locations in central Moscow and the surrounding areas. The future mix of office, retail and residential developments will depend on the opportunities presented to the Group and may change over time.

## MARKET OUTLOOK

The Group operates at the high-end property market of central Moscow, where demand for the highest quality residential, office and retail developments continues to outstrip supply.

With regard to residential development, prices for good quality flats in a good location can reach US\$10,000–15,000 per square metre, whereas prices for high quality flats in prime locations, which is our main target market, can reach US\$25,000–30,000 per square metre. We are experiencing a rising tendency by Russians to purchase large flats of 300 square metres or more. The high demand in our segment allows us to enter into pre-sale deals with respect to the majority of the flats in our residential projects. Currently, the development of residential property by the Group is concentrated in the Garden Ring's Ostozhenka district.

The Group is also active in the development of prestigious office buildings. We develop Class A+ offices in prime locations in Moscow. There is a rising demand for the sale and/or lease of such offices to Russian and Western entities. The prices on sale can reach \$15,000–18,000 per square metre, whereas the annual rent can reach \$1,200–1,300 per square metre excluding maintenance and value added tax. The common term of lease agreements is five years with an option to increase the rent after the third year of the lease.

There is also a strong demand for the lease or sale of retail property in Moscow in the high-end segment. Prices depend on the location of the property and the floor. The prices can reach \$3,000 per square metre per annum for lease of prime property on the ground floors, whereas on the sale price can reach \$25,000 per square metre on the ground floors. We have experienced a growing demand from Western entities for the lease or sale of such retail property.

The Directors expect the current favourable market conditions to continue during 2007.

## FINANCIAL RESULTS

The financial results of the Group are set out on pages 12 to 15 of the financial statements.

The Group's accounting policies since incorporation have been selected by the Directors in accordance with the requirements of International Financial Reporting Standards.

It should be noted that in Moscow, unlike a number of international markets, ownership rights to the land being developed are not held by the Group. Instead, property development rights are typically held in the form of an investment contract or land lease agreement. On the acquisition of these assets by the Group, these rights are initially recorded on the balance sheet as intangible assets. Whilst the Directors believe that the market for these rights is liquid, the lack of transparency and publicly available information restricts the Group from revaluing these assets at each balance sheet date in accordance with International Financial Reporting Standards. With the majority of the value of each development project attaching to these rights, the Directors consider that while development projects undertaken by the Group are at the pre-development through to construction stages,

# CHAIRMAN'S STATEMENT CONTINUED

## FINANCIAL RESULTS CONTINUED

applying a fair value as at the balance sheet date to the project sites involves additional costs without enhancing the usefulness of the financial statements. The Directors therefore only consider valuations to be appropriate once the developments are completed and the properties are to be classified as investment properties in accordance with IAS 40 "Investment Property". Accordingly, only where required by accounting standards have assets and liabilities been recorded at fair values in these financial statements. For those developments expected to be sold on completion, these assets are recorded at the lower of cost and net realisable value and a gain will only be recognised on the sale of the development.

In order to provide shareholders with further detail of the Group's developments, the Property Report section includes a valuation by the Industry Consultant, DTZ. The DTZ aggregate valuation of the Group's five properties held for development as at 31 December 2006 is US\$209.7 million. The valuation of the pipeline project, for which the Group has no current permissions enabling it to develop the site as at 31 December 2006, totals US\$95.2 million.

The financial results are described in further detail within the Directors' Report on page 4.

## POST BALANCE SHEET EVENTS

During January 2007, the Group obtained the construction permit in respect of the Tsvetnoy Development and the construction on this site commenced.

On 14 March 2007, the Group signed a lease agreement effective through to the end of 2011 in respect of the Butikovskiy property. The rent agreed is in excess of 10% more than that used in the independent valuation report for this property as at 31 December 2006.

On 19 March 2007, the Group announced investment in two new development projects in Moscow for a total consideration of US\$140 million. The investment in the new projects will approximately treble the aggregate area of the portfolio that the Group currently plans to develop in Moscow from around 160,000 square metres to between approximately 440,000 and 550,000 square metres.

The larger of the new projects is the proposed development of three blocks (comprising a land plot of approximately 150,000 square metres) located to the east of the Tsvetnoy Boulevard, approximately two kilometres north of the Kremlin and within the Garden Ring (the "Chelsea Development").

The Group has acquired an interest in the Chelsea Development, held by ZAO Opal ("Opal"), for a consideration of US\$100 million. Of this amount, US\$30 million will be re-invested directly in Opal to fund the initial stages of development with the previous owner also gaining the right to acquire 3,000 square metres in the new development when constructed for no further payment. After these initial stages, the Directors believe that the majority of the development process will be funded by way of construction loans and possible pre-sales of residential units.

The development rights in respect of the Chelsea Development are currently held by Opal under an investment contract with the Moscow Government and pursuant to two resolutions passed by the Moscow Government.

The second new project is the proposed development of a land plot of approximately 3,900 square metres of land located opposite Victory Park, on the edge of the district known as "Moscow City", a new, predominantly commercial, district approximately seven kilometres to the west of the Kremlin and to the north of Kutusovskiy Prospekt, the principal westward arterial route out of Moscow (the "Victory Park Development").

The Group has entered into a subscription and shareholders' agreement with Kensington Gore Limited, a significant shareholder of the Company, to develop the Victory Park Development. The Company's investment in the Victory Park Development is structured through an entity that the Group has acquired a controlling stake of 68.85% for consideration of US\$40 million in cash. US\$8.6 million of the consideration will be loaned to the entity acquired, in order to acquire the Victory Park Development real estate asset. The balance, US\$31.4 million, will be invested directly to fund the initial stages of development. As with the Chelsea Development, the Directors believe that the majority of the development process will be funded by way of construction loans and possible pre-sales of residential units.

## CORPORATE GOVERNANCE

As a Guernsey registered company, RGI is not required to comply with the Combined Code on corporate governance. However, it is the Company's policy to comply with best practice on corporate governance where possible.

The Company has adopted a share dealing code, based on the Model Code (as set out in Annex 1R to Chapter 9 of the Listing Rules of the UK Listing Authority) for Directors, persons discharging managerial responsibilities and relevant employees which is appropriate for an AIM quoted company.

## BOARD

The current Directors are listed on page 4 within the Directors' Report.

The Board has extensive operational experience in the real estate market in Moscow and is composed of both international and Russia-based executives. The Board currently comprises seven members, four of whom are executive Directors and three of whom are non-executive. It is intended that the Company will appoint an additional independent non-executive Director as soon as practicable and the Board has appointed a specialist executive search consultant to identify an appropriate UK-based individual.

In line with its commitment to comply with best practice, the Company has established an Audit Committee, a Remuneration Committee and a Nomination Committee.

On 1 March 2007, Mariana Golberg tendered her resignation as the Group's Chief Financial Officer effective 31 March 2007. While we are sad to see Mariana leave, we fully respect her decision and she departs with the Board's best wishes for the future.

Gregory Ulitsky will join the Group as Chief Financial Officer on 1 April 2007.

We are delighted to have secured someone of Gregory's calibre. He has a great understanding of our sector and I have no doubt that he will be a first rate Chief Financial Officer.

## CONCLUSION

I am pleased to be able to report, on behalf of my Board colleagues, that RGI looks forward with confidence to 2007. Drawing on the experience of Boris Kuzinez and his team we are well positioned to successfully complete our current developments and identify new projects as they arise.



Jacob Kriesler  
Chairman  
20 March 2007

# DIRECTORS' REPORT

The Directors present their annual report on the activities of the Group, together with the audited financial statements for the period from 14 March 2006 to 31 December 2006.

## HISTORY AND OVERVIEW

Boris Kuzinez, the founder, Chief Executive and indirect controlling shareholder of the Company, was one of the first developers to construct modern, Western style buildings in Moscow. Prior to the formation of the Group, Boris Kuzinez, together with various partners, has been involved in the development of over 15 development projects comprising approximately 140,000 square metres of high-end office, retail and residential real estate situated in prime locations in central Moscow and the surrounding areas. The majority of these projects were financed by Boris Kuzinez without recourse to external third party financing.

The Company was established on 14 March 2006 in order to acquire certain development assets held by entities indirectly 100 percent owned by, or together with parties connected to, Boris Kuzinez, and by third parties, and to facilitate Admission. A majority of the Group's current developments, together with LLC Project Bureau and LLC Armix, the Group's property development and management subsidiaries respectively, were acquired from Boris Kuzinez or parties connected to, or controlled by, Boris Kuzinez.

As part of the establishment of the Group, Boris Kuzinez transferred to the Group:

- his portfolio of projects under development. This is a portfolio of high end office, retail and residential projects. All of the Group's current developments are centrally located, being within three kilometres of the Kremlin (see the section entitled "Property Report") and;
- all of his team, consisting of more than 40 professionals with an extensive experience in identifying, developing and managing high-end office, retail and residential properties in Moscow. As a result, no management fees will be paid to external management entities.

Boris Kuzinez also agreed not to compete with the Group in the development of office, retail or residential properties in the Commonwealth of Independent States.

In September 2006, the Company successfully completed a private placement where SSF III Fathers Holdings Limited subscribed for ordinary shares which, at the time, represented a 15.4% shareholding, in consideration for investing US\$30 million in the Company.

In December 2006, the Company successfully completed an Initial Public Offering and listed its shares on AIM. The Company issued 29,099,250 ordinary shares in the base offering and an additional 2,909,925 ordinary shares following the exercise in full of the Over-allotment Option to a broad range of international investors. The offer price was US\$6.00 per share, bringing the total amount raised, before expenses, to US\$192 million.

## STRATEGY

The principal activity of the Group is property management and development through its subsidiaries in the Russian Federation focused on the Moscow real estate market.

The Group's overall strategy is to create shareholder value through implementing the key strategies described below.

### Completion of existing developments and continuing to acquire attractive sites for future development

The Group is currently in the process of developing five projects and expects to be granted rights in respect of a sixth project, all of which are expected to be completed between 2007 and 2009. The Group intends to achieve successful and timely completion of these developments. In addition, the Group intends to continue to source additional development projects in prime locations in central Moscow and the surrounding areas.

The two additional projects acquired by the Group during 2007 as detailed with the subsequent events note to the financial statements are evidence of this strategy.

The Group intends to develop and, where appropriate, manage its own projects, rather than purchase and manage existing projects completed by third parties. Such an intention is based on the Directors' belief that the development and, where appropriate, management, of projects will provide substantially greater returns than the acquisition and management of completed developments.

### Office and retail developments

The Directors consider the development and construction of office and retail property in prime locations in central Moscow as a significant market segment. Driven by strong economic growth, the demand for high-end office and retail property space in central Moscow and the surrounding areas has increased following the 1998 financial crisis in the Russian Federation. However, the supply of such property has lagged behind demand due to high barriers to entry and the intrinsic difficulties of developing properties in Moscow.

The Directors expect this trend to continue in the foreseeable future and therefore intend to allocate a significant proportion of the Group's capital resources to the development of high-end office and retail properties. In general, the Group intends to retain ownership of, and lease and manage the completed office and retail properties within its developments, in order to maximise the return on these properties and to produce a regular income flow. However, in the right market conditions, the Group may dispose of all or part of its office and retail properties if the Directors believe that doing so will optimise shareholder value.

### High-end residential developments

The Directors consider the development, construction and sale of high-end residential property as an attractive segment of the Moscow real estate market. The Directors believe that the market for residential property in Moscow is characterised by low supply per capita and ageing stock, and therefore, that demand for residential properties will continue to grow.

Furthermore, the Directors believe that as disposable incomes, fuelled by strong economic growth, increase, demand will be particularly strong for high-end, Western style residential properties. The Group expects to continue to build residential property developments principally in prestigious areas of central Moscow and to maintain its commitment to constructing only high-end developments.

The Directors believe that this strategy will enable the Group to continue to command premium prices on the sale of its residential property. It is the Group's current intention to dispose of its residential property developments upon completion of construction.

# DIRECTORS' REPORT CONTINUED

## Geographic focus

The Group will continue to focus its activities principally within or close to Sadovoe Koltso, Moscow's "Garden Ring" road, which, from a real estate perspective, is the generally accepted boundary of central Moscow. All of the Group's current developments are located within the Garden Ring. In certain limited circumstances, particularly in connection with the development of high-end residential properties, where the Company identifies specific attractive opportunities, the Group may develop properties in suburban Moscow.

## Leverage

As at 31 December 2006, the Group had US\$157 million in bank deposits and no material existing external indebtedness. The Directors expect the Group to raise external debt financing to optimise its capital structure and execute its business strategy.

## FINANCIAL RESULTS

The results for the period from 14 March 2006 to 31 December 2006 are set out in the Consolidated Income Statement presented on page 13 of the Financial Statements.

As at 31 December 2006, the total assets of the Group were US\$338.6 million, total liabilities were US\$33.6 million and total equity was US\$305.1 million.

The total assets includes cash and cash equivalents of US\$163.4 million, the majority of which is placed on short-term deposit, having been raised through the issue of ordinary shares during the period.

In addition, the establishment of the Group has resulted in a number of acquisitions with the separately identifiable assets, liabilities and contingent liabilities being initially recognised at their fair values. With no significant external debt, and the property development rights acquired representing significant value, this has contributed to the strong asset base of the Group.

As at 31 December 2006, current liabilities were less than US\$12.8 million. The non-current liabilities of US\$20.8 million relate to deferred tax that would be payable in the event that the underlying property assets were disposed of and a tax charge was crystallised.

The Directors consider that following Admission, the Group has sufficient funds to finance the development of its current projects. The pipeline project, the Taganka Development, would require external finance in order to develop their project. The available working capital as at 31 December 2006 totalled US\$152 million.

As a result of the acquisition of additional projects during March 2007, a proportion of the Group's surplus cash has been allocated to fund these acquisitions. This has resulted in the Group needing to secure additional finance in order to complete these, and its existing developments.

The profit before tax for the period was US\$88.4 million. The profit for the period has been enhanced by the contribution of negative goodwill arising on the acquisitions made of US\$90.5 million. US\$41.5 million arose on the transfer of the former business of the Group's founder, Chief Executive and majority shareholder into the Group on 30 June 2006. US\$15.9 million arose on the Group's acquisition of the minority interest in Ling Investments Limited, where the consideration paid by the Group was supplemented by the transfer of shares in the Group held by the Group's Founder, Chief Executive and majority shareholder. The Directors consider that these are one-off transactions that will not be repeated in future periods.

The remaining US\$32 million of the total negative goodwill relates to the acquisition of the jointly controlled entity, Lafar Management Limited, and is recorded as part of the share of the profit of the jointly controlled entity during the period. This previously unconnected entity demonstrates the Group's success in leveraging from its expertise in developing luxury properties in central Moscow and obtaining developing rights to sites on favourable terms.

The financial statements have been presented in US dollars, but the functional currency of the Company is the Russian rouble. The majority of the Group's expenditures and revenues are denominated in US dollars, as are substantially all of the available cash resources. While the Group is exposed to currency movements between the US dollar and the Russian rouble, the Directors believe that the foreign exchange risk is not significant and accordingly have not entered into any hedging arrangements in order to mitigate the exposure.

## DIVIDENDS

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

## BOARD OF DIRECTORS

As of 31 December 2006 and at the date of this report, there are seven members of the Board of Directors. Collectively, the Board has extensive operational experience in the real estate market in Moscow, and the Board is composed of both international and Russia-based executives.

The Board consists of the following Directors:

Jacob Kriesler, Chairman	Appointed 13 July 2006
Emanuel Kuzinets	Appointed 13 July 2006
Glenn Aaronson, non-executive	Appointed 27 September 2006
Boris Kuzinez, Chief Executive Officer	Appointed 23 November 2006
Mariana Golberg	Appointed 23 November 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.

As noted in the Chairman's Report, Mariana Golberg tendered her resignation on 1 March 2007, effective 31 March 2007.

## SUBSTANTIAL SHAREHOLDINGS

Following Admission and exercise of the Over-allotment Option the total number of ordinary shares in issue is 101,706,144.

Boris Kuzinez, indirectly through D.E.S. Commercial Holdings Limited, owns 50,994,832 shares or 50.1% of the Company; Morgan Stanley managed vehicle SSF III Fathers Holdings Limited owns 9,090,909 shares or 8.9% of the Company; and Kensington Gore Limited, a private investor owns 8,702,137 shares or 8.6% of the Company.

Jacob Kriesler, the Chairman, owns 909,091 shares or 0.9% of the Company. No other Directors held any shares in the Company.

The remaining 31.5% of the Company is in public hands. As at 31 December 2006, the Company had not received notification of any individual shareholding with a beneficial interest of 3% or more.

## 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 needs to comply in Guernsey, its place of incorporation. However, the Company has established an Audit Committee, a Remuneration Committee and a Nomination Committee.

The Company has also adopted a share dealing code, based on the Model Code (as set out in Annex 1R 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 currently comprises three members: Glenn Aaronson, Rafael Eldor and Timothy Fenwick, a majority of whom are independent non-executive Directors. 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 internal controls and for ensuring that the financial performance of the Group is properly monitored, controlled and reported on. It also meets the Company's auditors and reviews reports from the auditors relating to accounts and internal control systems. It is chaired by Rafael Eldor.

The Audit Committee was established in late-November 2006, just prior to the Admission and did not meet during 2006. The Board intends to include a report as to the Audit Committee's activities in the Annual Report to be published in relation to the financial year ending 31 December 2007 and for each subsequent year.

### Remuneration Committee

The Company has established a Remuneration Committee. The Remuneration Committee comprises three members: Glenn Aaronson, Rafael Eldor and Timothy Fenwick. The Remuneration Committee is responsible for reviewing the performance of the executive Directors and setting 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 the 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.

The Remuneration Committee was established in late-November 2006, just prior to the Admission and did not meet during 2006. The Board intends to include a report as to the Remuneration Committee's activities in the Annual Report to be published in relation to the financial year ending 31 December 2007 and for each subsequent year.

### Nomination Committee

The Company has established a Nomination Committee. The Nomination Committee comprises three members: Jacob Kriesler, Rafael Eldor and Timothy Fenwick, a majority of whom are independent non-executive Directors. The Nomination Committee is 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.

The Nomination Committee was established in late-November 2006, just prior to Admission and did not meet during 2006. The Board intends to include a report as to the Nomination Committee's activities in the Annual Report to be published in relation to the financial year ending 31 December 2007 and for each subsequent year.

## TAKEOVER CODE

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

## DISCLOSURE OF SHAREHOLDINGS

Although The Companies (Guernsey) Law, 1994 (as amended) contains no requirement for shareholders to disclose their interests in the ordinary shares, the Company has adopted provisions in its Articles requiring any person who becomes interested in 3% 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 the Russian Federation 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 was 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 licences and complies in all material respects with all relevant environmental requirements existing under applicable Russian law.

# DIRECTORS' REPORT CONTINUED

## LIQUIDITY AND FINANCING

The acquisition of the Group's rights to the developments described in this report had, in part, been financed through a combination of a capital contribution from D.E.S. Commercial Holdings Limited and the proceeds of the subscription by SSF III Fathers Holdings Limited.

Following the Admission, the Group has sufficient funds to finance the development of its current projects. If the Group is successful in obtaining the development rights to the Taganka Development external finance will be required in order to develop this project.

As at 31 December 2006, the Group had no material external indebtedness, although it expects to have capacity to raise external debt financing, which will depend upon, *inter alia*, the status of the permits and approvals necessary to proceed with the Group's development projects and the extent of any bank guarantees required by the Moscow Government in respect of the Group's developments.

In the event that the Group is required to enter into an investment contract with the Moscow Government in respect of a new development, prior to such an investment contract being entered into, the Moscow Government will require the relevant Group company to obtain a bank guarantee in favour of the Moscow Government. The requirement to obtain such a bank guarantee (in relation to one or a number of the Group's developments) may impact upon the Group's ability to obtain finance from third parties. This requirement may be relevant to the Taganka Development and the Khilkov Development, together with any future developments which are to be undertaken pursuant to an investment contract.

## CURRENCY

The Company's principal functional operating currency is the Russian rouble. The ordinary shares are quoted on AIM in US dollars. The Group's income and expenditure are predominantly denominated in Russian roubles 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 roubles at the prevailing spot rate. A small proportion of expenditure may be denominated in US dollars. Although the Group is exposed to currency movements between the US dollar and the Russian rouble, the Directors believe that the foreign currency risk is not significant and accordingly have not entered into any hedging arrangements in order to mitigate the exposure. In the future, the Directors will consider undertaking hedging activities, where appropriate, in order to mitigate the risk of unfavourable exchange rate fluctuations.

## SHARE CAPITAL

There were significant changes to the authorised and issued share capital of the Company resulting from the listing of the Company's shares on the AIM market of the London Stock Exchange on 13 December 2006.

All relevant information regarding share capital is disclosed in note 20 to the financial statements.

## DIRECTORS' RESPONSIBILITIES

The Directors are required by The Companies (Guernsey) Law, 1994, to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Group as at the end of the financial period and the profit or loss of the Group for the period then ended. In preparing those financial statements the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the 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 financial statements comply with The Companies (Guernsey) Law, 1994. 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.

The maintenance and integrity of the Group's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## GOING CONCERN

After making enquiries, the Directors have 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 financial statements.

## AUDITORS

The independent auditors, PricewaterhouseCoopers CI LLP, 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 2007

# PROPERTY REPORT

## The Group's current property developments

The Group is currently in the process of developing five properties. Development of these properties is at a very early stage, and as at 31 December 2006, construction had commenced in respect of just one property.

These projects comprise one primarily retail development at 15/1 Tsvetnoy Boulevard, two primarily office developments at 15 Butikovskiy Lane and 70/1 Zemlianoy Val Street and two primarily residential developments at 3/1 Khilkov Lane and 37/7 Ostozhenka Street.

In addition, the Group has one pipeline office, retail and residential development at 5-13 Nizhniy Tagansky Lane – the Taganka Development. The Group currently does not have any rights in relation to this site as at the date of this report.

### Butikovskiy Development

The Butikovskiy Development is a proposed office building, preliminary construction of which has commenced. The Butikovskiy Development is expected to be completed during the second quarter of 2007.

The Butikovskiy Development is located at 15 Butikovskiy Lane, in close proximity to Prechistsenskaya Embankment in Ostozhenka, part of Moscow's so-called "Golden Mile". Property values in Ostozhenka have risen considerably in recent years.

The Butikovskiy Development will comprise eight levels, including two underground levels. The two underground levels will be used as parking for 97 vehicles. The gross internal area of the completed building will be approximately 8,929 square metres, including six floors of office space of approximately 4,682 square metres. The two underground levels will extend to approximately 3,007 square metres. The remaining space (approximately 1,240 square metres) will consist of common areas and ancillary and maintenance areas.

### Ostozhenka Development

The Ostozhenka Development is a proposed residential townhouse, construction of which has not yet commenced. The Ostozhenka Development is expected to be completed in the fourth quarter of 2008. The Ostozhenka Development is to be located at 37/7 Ostozhenka Street, in the Central Administrative Prefecture of Moscow, at the intersection of Ostozhenka Street and Khilkov Pereulok.

The Ostozhenka Development will comprise five levels, including two underground levels and an attic. The lower underground floor will comprise a car park with four spaces, ancillary and technical facilities, and a home theatre. The upper underground floor will comprise an entrance hall, a swimming pool and a winter garden. A drawing room, a dining room and a study will be located on the first floor, with bedrooms on the second floor. The attic will contain a library and a studio. The gross internal area of the completed townhouse will be approximately 1,379 square metres. The Ostozhenka Development will include a terrace on part of the roof. The Ostozhenka Development is located in a conservation area, which exists to ensure that new buildings blend in with existing structures. The Ostozhenka Development is to be a replica of the existing historic building on the site, which will be demolished.

### Tsvetnoy Development

The Tsvetnoy Development is a proposed primarily retail development, construction of which commenced in January 2007. The expected completion of the Tsvetnoy Development has been delayed to the fourth quarter of 2008 from the third quarter of 2008 as stated at the time of Admission. This delay is due to the development of the multifunctional design. The Tsvetnoy Development is to be located at 15 Tsvetnoy Boulevard, between two of Moscow's famous "ring roads", Bul'varnoe and the Garden Ring Road. The metro station "Tsvetnoy Boulevard" is located within a one minute walk from the site. The development is proposed to be used primarily as a shopping centre and is expected to include a gourmet food court.

The Tsvetnoy Development will comprise 11 levels, including four underground levels. The four underground levels will be used for parking vehicles. The gross internal area of the completed complex will be approximately 38,653 square metres, including six floors of retail space of approximately 14,074 square metres, one floor of office space of approximately 726 square metres, and four underground levels of parking of approximately 14,327 square metres. The remaining space (approximately 9,526 square metres) will consist of common areas and ancillary and maintenance areas.

\*Source: DTZ Report from 16 February 2007.

# PROPERTY REPORT CONTINUED

## Zemlianoy Development

The Zemlianoy Development is a proposed primarily office development, construction of which has not yet commenced.

The Zemlianoy Development is expected to be completed in the fourth quarter of 2008. The Zemlianoy Development is to be located at 70/1 Zemlianoy Val Street, in the Tagansky District. The Zemlianoy Development is adjacent to the Taganka Development, and is within 250 metres of the "Taganskaya" metro station.

The Zemlianoy Development will comprise 12 levels, including three underground levels. The three underground levels will be used for parking. The gross internal area of the completed building will be approximately 10,491 square metres, including retail space of approximately 500 square metres, office space of approximately 7,106 square metres and parking space of approximately 2,688 square metres. The remaining space (approximately 217 square metres) will consist of common areas and ancillary and maintenance areas.

The Zemlianoy Development will be constructed on the site currently occupied by the Zemlianoy Building. Demolition of the Zemlianoy Building is expected to occur following relocation of the existing tenants. This relocation was expected to have been completed by the end of December 2006, however, two families out of twenty-seven are yet to be relocated. The demolition of Zemlianoy Building is now expected to commence in May 2007.

## Khilkov Development

The Khilkov Development is a proposed primarily residential development, construction of which has not yet commenced. The Khilkov Development is expected to be completed in the second quarter of 2009.

The Khilkov Development is to be located at 3 Khilkov Lane, which is one of the prime residential locations in Moscow. The Khilkov Development is to be located near to three main tourist attractions in Moscow. It is approximately 850 metres from the Cathedral of Christ the Saviour; approximately 1,000 metres from Gorky Park and approximately 1,500 metres from the Kremlin. Currently, the site comprises a small park, sports ground and an existing old building which will be demolished as part of the redevelopment. Khilkov Lane is a crossroad to Ostozhenka, regarded as the most famous residential street in Moscow. The site upon which the Khilkov Development will be constructed is surrounded by a school that is currently being built, a residential building currently under construction and a newly constructed business centre.

The number of levels and car parking spaces in respect of the Khilkov Development are as yet undetermined, as the development remains in its concept stage. The gross internal area of the completed Khilkov Development is expected to be approximately 32,000 square metres, including office space of approximately 500 square metres, residential space of approximately 14,500 square metres and parking space of approximately 8,000 square metres (approximately 250 parking spaces). The remaining space (approximately 9,000 square metres) is expected to consist of common areas and ancillary and maintenance areas.

As at 31 December 2006, ownership of 60% of the flats in the Khilkov Building, which is located on part of the Khilkov development site, had been acquired. It is expected that all the residents will have been relocated by the end of the second quarter of 2007.

## Taganka Development

The Taganka Development is a proposed office, retail and residential development, construction of which has not yet commenced. The Group currently does not have any land lease rights in relation to the Taganka Development, nor does it have any formal approvals or resolutions from the Moscow Government permitting it to construct the Taganka Development, although the Directors believe that the Moscow Government is, in general, supportive of the grant of such rights. Pending the grant of such rights, the Taganka Development is expected to be completed in the fourth quarter of 2009.

The Taganka Development is to be located at 5-13 Nizhniy Tagansky Lane, in the Tagansky District. The Taganka Development is to be adjacent to the Zemlianoy Development, and is within 250 metres of the "Taganskaya" metro station. Construction of the Taganka Development is expected, in due course, to require the demolition of one of the three existing buildings on the site. The Directors intend that the Taganka Development will consist of a refurbishment of an existing theatre on the site and the construction of newly built office and retail space, planned to comprise three connected buildings which will form a multifunctional complex, including an underground car park. A road connecting two streets may be built within the development.

The Taganka Development will comprise 12 levels, including four underground levels. The four underground levels will be used for parking for approximately 800 vehicles. The gross internal area of the completed complex will be approximately 67,995 square metres, including retail space of approximately 17,714 square metres, office space of approximately 9,085 square metres, residential space of approximately 5,387 square metres, parking space of approximately 25,600 square metres and a theatre of approximately 9,016 square metres. The remaining space (approximately 1,193 square metres) will consist of common areas and ancillary and maintenance areas.

**Valuation of the Group's developments as at 31 December 2006**

Included in the table below are the estimated market values as at 31 December 2006 of the five current projects, and the one pipeline project (for illustrative purposes to indicate the value should the Group be successful in obtaining rights and permissions in relation to this site). The valuations have been performed by the Industry Consultant, DTZ:

DEVELOPMENT	DESCRIPTION OF CURRENT DEVELOPMENTS	ESTIMATED GROSS INTERNAL AREA UPON COMPLETION SQ METRE	MARKET VALUATION FOR 100% OF DEVELOPMENT IN EXISTING STATE US\$ EXCLUDING VAT	RGI TARGET OWNERSHIP UPON COMPLETION %	PORTFOLIO VALUATION FOR COMPLETED DEVELOPMENT BASED ON TARGET RGI OWNERSHIP	ESTIMATED COMPLETION DATE
<b>Properties in the course of construction</b>						
Butikovskiy Development	Office building to be constructed in Butikovskiy Lane, Moscow	8,929	28,770,000	100	28,770,000	2Q 2007
<b>Properties held for development</b>						
Ostozhenka Development	Residential building to be constructed in Ostozhenka Street, Moscow	1,379	13,730,000	100	13,730,000	4Q 2008
Tsvetnoy Development	Primarily retail complex to be constructed in Tsvetnoy Boulevard, Moscow	38,653	65,110,000	100	65,110,000	4Q 2008
Zemlianoy Development	Primarily office complex to be constructed in Zemlianoy Val Street, Moscow	10,491	21,207,000	100	21,207,000	4Q 2008
Khilkov Development	Primarily residential complex to be constructed in Khilkov Lane, Moscow	32,000	161,795,000	50	80,897,500	2Q 2009
<b>Total properties in the course of construction and held for development</b>		<b>91,452</b>			<b>209,714,500</b>	
<b>Pipeline properties</b>						
Taganka Development	Office, retail and residential complex to be constructed in Nizhniy Tagansky Lane, Moscow	67,995	95,245,000	100	95,245,000	4Q 2009
<b>Total pipeline properties</b>		<b>67,995</b>			<b>95,245,000</b>	

# PROPERTY REPORT CONTINUED

## Basis of the valuations

The Industry Consultant's valuation figures have taken into account certain costs payable to the Moscow Government, including both estimated general construction costs and estimated costs in order to acquire, where relevant, the Moscow Government's share, or future share, in the Group's current developments. For the purposes of the financial information set out in the financial statements, the Directors have considered it appropriate to apply a discount to the market values proposed by the Industry Consultant in order to reflect the absence of full permits and permissions relating to the developments as at the date of acquisition. The discounts applied between 0% and 20% represent the Directors' estimate of the risk premium which would be commanded by an acquirer.

These figures are based on the Industry Consultant's valuation of the relevant development in its existing state. In all cases as at 31 December 2006, the expected valuation of the developments on completion is higher.

The Industry Consultant's valuation of US\$209,714,500 based on the Group's target ownership represents the aggregate of the current values attributable to each of the individual developments and should not be regarded as a valuation of the portfolio as a whole in the context of a single sale.

The Industry Consultant's valuation figure in respect of the Taganka Development excludes any value attributable to the theatre that is expected to be refurbished by the Group as part of the Taganka Development, and is expected to be owned by the Moscow Government.

The assumptions and methodology adopted by the Industry Consultant in performing these valuations are consistent with those used in valuations prepared as part of the Company's Admission.

It is noted that obtaining 100 percent ownership of a real estate asset can be procedurally complex in the Russian Federation. As a result, while the Directors expect that the Group will secure the target ownership as recorded for each development, under certain circumstances this may not be achieved and the Group's actual ownership in the completed developments could be lower.

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

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of R.G.I. International Limited and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in shareholders' equity for the period from 14 March 2006 to 31 December 2006 and a summary of significant accounting policies and other explanatory notes.

We will report separately on the parent company financial statements of R.G.I. International Limited for the period from 14 March 2006 to 31 December 2006.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of Guernsey Law. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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

Our responsibility is to express an opinion on these 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.

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 judgement, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2006 and of the financial performance and cash flows for the period from 14 March 2006 to 31 December 2006 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, 1994.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Directors' Report and the Property Report.

In our opinion, the information given in the Chairman's Statement; the Directors' Report and the Property Report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 64 of The Companies (Guernsey) Law, 1994 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 consent in writing.



PricewaterhouseCoopers CI LLP  
Chartered Accountants  
Guernsey, Channel Islands  
20 March 2007

# CONSOLIDATED BALANCE SHEET

	NOTE	31 DECEMBER 2006 US\$'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property development rights	6	68,714
Development licences	7	365
Goodwill	26	5,075
Property development expenses	8	29,335
Plant and equipment	9	110
Investment in jointly controlled entity	10	59,017
Long-term loans	11	2,213
Prepayments	12	9,299
<b>Total non-current assets</b>		<b>174,128</b>
<b>Current assets</b>		
Debtors and prepayments	13	1,151
Cash and cash equivalents	14	163,365
<b>Total current assets</b>		<b>164,516</b>
<b>Total assets</b>		<b>338,644</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liability	15	20,822
<b>Total non-current liabilities</b>		<b>20,822</b>
<b>Current liabilities</b>		
Borrowings	16	3,875
Contingent purchase consideration	17	5,200
Deferred purchase consideration	17	1,054
Trade and other payables	18	2,521
Other taxes payable	19	83
<b>Total current liabilities</b>		<b>12,733</b>
<b>Total liabilities</b>		<b>33,555</b>
<b>Equity</b>		
Share capital	20	1
Share premium	21	216,721
Retained earnings		88,257
Translation reserve		110
<b>Total equity</b>		<b>305,089</b>
<b>Total liabilities and equity</b>		<b>338,644</b>

Approved for issue and signed on behalf of the Board of Directors on 20 March 2007.



Jacob Kriesler  
Director



Mariana Golberg  
Director

The notes set out on pages 16 to 45 form an integral part of these consolidated financial statements.

# CONSOLIDATED INCOME STATEMENT

	NOTE	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
Revenue	27	380
The excess of acquirer's interest in the net fair value of the acquiree's indentifiable assets, liabilities and contingent liabilities over cost (negative goodwill)	26	58,532
Consulting and other professional services	28	(4,637)
General and administrative expenses	29	(235)
Accretion of discount on payables		(326)
Exchange gains		774
Bank charges		(35)
Depreciation		(10)
<b>Operating profit</b>		<b>54,443</b>
Share of profit of jointly controlled entity	10	33,738
Interest income	30	238
<b>Profit before income tax</b>		<b>88,419</b>
Income tax	15	(148)
<b>Profit for the period</b>		<b>88,271</b>
<b>Profit is attributable to:</b>		
Equity holders of the Company		88,257
Minority interest		14
<b>Profit for the period</b>		<b>88,271</b>
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in US\$ per share)	37	<b>1.57</b>

The notes set out on pages 16 to 45 form an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

	NOTE	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
<b>Net cash outflow from operating activities before working capital changes</b>	31	<b>(4,767)</b>
Change in trade and other payables		2,033
Change in trade and other receivables		(94)
Change in other taxes payable		27
<b>Cash used in operations</b>		<b>(2,801)</b>
Interest paid		(1,094)
Income tax paid		(13)
<b>Net cash used in operating activities</b>		<b>(3,908)</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries, net of cash and cash equivalents acquired	23	(3,364)
Acquisition of Yialoka Holdings Limited	24	186
Acquisition of minority interest	22	(1,400)
Investment in jointly controlled entity	25	(23,846)
Prepayments made	12	(9,024)
Purchase of plant and equipment		(90)
Interest received		169
<b>Net cash outflow from investing activities</b>		<b>(37,369)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	20, 21	206,228
Transaction costs paid in relation to the Admission		(4,131)
Additional capital contribution	21	4,961
Proceeds from borrowings	16	4,173
Repayments of borrowings	16	(4,241)
<b>Net cash inflow from financing activities</b>		<b>206,990</b>
Effect of exchange rate changes on cash and cash equivalents		(2,348)
<b>Net increase in cash and cash equivalents</b>		<b>163,365</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>–</b>
<b>Cash and cash equivalents, end of the period</b>	14	<b>163,365</b>

Non-cash financing transactions include capitalisation into share premium of an outstanding loan of US\$5,532,000. Refer to note 21.

The notes set out on pages 16 to 45 form an 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	TRANSLATION RESERVE	RETAINED EARNINGS			
<b>At 14 March 2006</b>		–	–	–	–	–	–	–
Currency translation difference recognised in equity		–	–	110	–	110	–	110
<b>Net income recognised directly in equity</b>		–	–	<b>110</b>	–	<b>110</b>	–	<b>110</b>
Profit for the period		–	–	–	88,257	88,257	14	88,271
<b>Total recognised income for the period</b>		–	–	<b>110</b>	<b>88,257</b>	<b>88,367</b>	<b>14</b>	<b>88,381</b>
Issue of share capital	20, 21	1	206,228	–	–	206,229	–	206,229
Additional capital contributions	21	–	10,493	–	–	10,493	–	10,493
Minority interest on acquisition	22	–	–	–	–	–	17,177	17,177
Acquisition of minority interest	22	–	–	–	–	–	(17,191)	(17,191)
<b>At 31 December 2006</b>		<b>1</b>	<b>216,721</b>	<b>110</b>	<b>88,257</b>	<b>305,089</b>	–	<b>305,089</b>

The notes set out on pages 16 to 45 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. THE R.G.I. INTERNATIONAL LIMITED GROUP AND ITS OPERATIONS

These financial statements cover the period from 14 March 2006 to 31 December 2006 for R.G.I. International Limited (the "Company") and its subsidiaries (together referred to as the "Group").

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, 1994. As at 31 December 2006, the registered office and business address was Frances House, Sir William Place, St. Peter Port, Guernsey GY1 4HQ. The Company's principal place of business is 6 Khilkov Lane, Moscow, 119034, Russian Federation.

As at 31 December 2006, the Group had 43 employees.

The Group's immediate parent is D.E.S. Commercial Holdings Limited, a company registered in the British Virgin Islands. As at 31 December 2006, the ultimate controlling party of the Group is Mr. Boris Kuzinez.

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 properties in central Moscow and the surrounding areas.

The Group consists of the following entities incorporated in Cyprus, where 100% of the share capital and voting rights are held: Elorietta Limited; Toucho Investments Limited; Teruel Investments Limited; Nospelt Limited; Canalet Holding Limited; Ling Investments Limited; Yialoka Holdings Limited and Lemoriano Limited. The Group also consists of the following entities incorporated in the Russian Federation, where 100% of the share capital and voting rights are held: LLC Dinas; LLC Ostozhie; LLC Directway Investments; LLC Central Market; LLC Armix and LLC Project Bureau.

On 19 September 2006, the Group acquired 50% of the voting shares of Lafar Management Limited, which holds a 100% interest in LLC Stolichnoe Podvorye.

As at 31 December 2006, the Group was involved in the development of two luxury residential developments at 37 Ostozhenka in the Ostozhenka district of Moscow and 3 Khilkov Lane and three office and retail developments at sites located in central Moscow, 15 Tsvetnoy Boulevard, 15 Butikovskiy Lane and 70/1 Zemlianoy Val Street. The Group further expects to be able to develop a project at Tagansky Lane, but does not have any rights in relation to this site as at the date of approval of these financial statements.

## 2. BASIS OF PREPARATION

### Basis of presentation

These consolidated financial statements are the first consolidated financial statements prepared by the Group. The Group's year end is 31 December and these consolidated financial statements represent financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The consolidated financial statements of the Group have been prepared under the historical cost convention as modified by the revaluation of financial liabilities at inception to fair value where such liabilities were entered into at rates other than market interest rates; the valuation at the fair value of the assets, liabilities and contingent liabilities of acquired subsidiaries on their initial recognition date in accordance with *IFRS 3 "Business Combinations"*; and the valuation at the fair value of the assets, liabilities and contingent liabilities within the jointly controlled entity on acquisition.

The results of the Group are from continuing operations unless otherwise disclosed. The Directors have the power to amend the financial statements after their issuance.

### Presentation and functional currency

All amounts in these financial statements are presented in thousands of US dollars ("US\$"), unless otherwise stated. As detailed within the significant accounting policies, the functional currency of all the entities in the Group is the Russian rouble ("RUR").

### Geographical and segment reporting

Since the Group is engaged in the provision of similar products and services within a particular economic environment, being subject to similar risks and returns, the Directors consider that the Group has only one business segment and geographical focus and accordingly does not present additional business and geographical segment information.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### a) Consolidation of subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, 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 on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised 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 Company. Minority interest forms a separate component of the Group's equity.

#### b) Consolidation of jointly controlled entities

Investments in jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group.

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.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, jointly controlled entities.

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

#### c) Acquisition of subsidiaries and jointly controlled entities

##### *Acquisition of subsidiaries*

The purchase method of accounting is used to account for the acquisition of subsidiaries. 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 acquirer at each exchange transaction represents goodwill. Goodwill acquired in a business combination is initially recognised 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 recognised immediately in the income statement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

##### *Acquisition of joint ventures*

The accounting policy for subsidiaries 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 arising on the transaction. Such goodwill is included in the carrying value of the investment in the jointly controlled entities accounted for using the equity method.

#### d) Transactions between equity holders

Where a minority interest is acquired by the other equity holders, 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 income statement for the period.

#### e) 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 accumulated amortisation and provision 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 rights are amortised using a straight-line method. The period of amortisation is the duration of the development and construction stage until the completed property is expected to be registered with the Moscow City Government. From this date, the Group expects to enter into a long term land lease agreement for the completed building. The amortisation is capitalised as part of property development expenses during the development and construction period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### f) Development licences

Development licences include licences held by an entity in order for it to be authorised to undertake development activities over the period of the licence's validity.

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

Amortisation is applied on a straight-line basis over the period that the Directors believe that the Group will derive benefit from the licence. Licences are generally issued for a period of five years, and licences acquired are amortised over this period, or the remaining period of validity of the licence if shorter. The amortisation of development licences is included as part of property development expenses allocated to the individual development projects on an annual basis in proportion to the total development costs of each project during that year.

### g) Property development expenses

Property development expenses represent capitalised costs directly attributable to the construction of properties, including interest and foreign currency movements on borrowings during the construction period, and other costs associated with the acquisition and development of real estate. Property development expenses are carried at cost less provision for impairment where required and are not depreciated. 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 recognised in the income statement in order to reduce the carrying amount to the recoverable amount. The cost of property development expenses recorded 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 expenses related to developments that are to be transferred to investment properties when the properties are completed and available for occupancy and are held for future long-term renting or capital appreciation. Upon transfer, the difference between the fair value of the completed property and the previous carrying value is recognised in profit or loss.

### h) Inventories

Where properties are to be sold by the Group on completion, the property development expenses are recorded as inventory at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete the development and selling costs.

Revenue from the sale of such properties is recognised upon the transfer of all significant risk and rewards of ownership when the development is completed.

### i) 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 these cases, only the respective ownership right of the Group in the completed development is reflected in any valuation.

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 for the site in its current state.

### j) Value added tax

The tax authorities permit the settlement of value added tax ("VAT") on a net basis. The net value added tax related to sales and purchases which have not been settled at the balance sheet date is recognised in the balance sheet and disclosed separately as a liability or as an asset to the extent that Directors expect to recover these amounts. Related cash flows are recorded as part of operating activities in the cash flow statement. Recoverable VAT is carried at cost.

### k) Advances to contractors

Other non-current assets include advances to contractors for construction related services. Advances are carried at cost less provision for impairment, where required.

### l) Plant and equipment

#### *Recognition and measurement*

Plant and equipment comprise costs directly attributable to bringing the assets into working condition for their intended use. Plant and equipment of acquired subsidiaries are recognised at fair value as at the acquisition date.

Major renewals and improvements are capitalised. 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 of income statement in the period in which the disposal occurs.

#### *Depreciation*

Depreciation of assets is calculated on a straight-line basis over their estimated useful life.

	USEFUL LIFE
Office and computer equipment	5 years
Motor vehicles	5 years

### 3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### *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 recognised as an expense (impairment loss) in the income statement.

#### **m) Accounts receivable and prepayments**

Accounts receivable are recorded inclusive of VAT, which is payable to the tax authorities. Accounts receivables are carried at amortised cost, net of provisions for impairment, if any. Where there is objective evidence that any part of these accounts receivable is not recoverable in full in accordance with contractual terms, a provision for the unrecoverable amount is recognised. The provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows (excluding impairment losses not yet incurred), discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Prepayments are carried at cost, net of provisions for impairment, if any. The provision is the difference between the carrying amount and the recoverable amount of prepayment.

#### **n) 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. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

#### **o) Borrowings**

Borrowings are recognised 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 amortised cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, such as properties, are capitalised as part of the cost of the asset. The capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

#### **p) Trade and other payables**

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 recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

#### **q) Deferred purchase consideration**

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

#### **r) Contingent purchase consideration**

When a business combination agreement provides for an adjustment to the consideration contingent on future events, the amount of that adjustment is included in the cost of the consideration at the acquisition date if the adjustment is probable and its fair value can be measured reliably.

If future events do not occur or the estimate needs to be revised, the cost of the business combination shall be adjusted accordingly.

#### **s) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when 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 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.

#### **t) Income taxes**

Income taxes have been provided for in the consolidated financial statements in accordance with legislation of Guernsey, Cyprus 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 recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, 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 the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within operating expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. 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 loss carry forwards will be utilised. 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 utilised.

### u) Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

### v) Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note.

### w) 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.

### x) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Transaction costs connected to the listing of shares are apportioned between equity and income based on those costs determined to be incremental to the raising of new finance compared to the listing of existing shares. Costs not dependent on the raising of new finances are expensed in the period.

### y) Employee benefits

Employee benefits include short-term employee benefits, such as wages, salaries, 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 is a defined contribution plan, are accrued when services are provided.

### z) Foreign currency translation

The functional currency of each of the Group's entities is the Russian rouble ("RUR"), which reflects the economic substance of the underlying events and circumstances of the Group's entities. The Group's financial statements have been presented in US dollars ("US\$"), as the Directors believe that this presentation is more appropriate for the users of the financial statements.

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 recognised in the consolidated income statement, unless they arise on borrowings which are directly related to the cost of construction, in which case they are capitalised as part of property development expenses during the period of construction.

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 recognised directly in equity in the translation reserve.

At 31 December 2006, the principal rate of exchange used for translating foreign currency balances was US\$1 = RUR 26.3311.

### aa) 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 recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 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 within the next financial year. Estimates and judgements are continually evaluated and are based on the Directors' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Directors also make certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

##### Accounting at historical cost

The Directors have considered whether to adopt a revaluation approach to the accounting for development projects that are being undertaken by the Group during the pre-development through to construction stages. This would have involved applying a fair value as at the balance sheet date for each development project. However, the Directors have decided to account for these projects at historic cost given the specific features of the Moscow real estate market. Unlike a number of international markets, ownership rights to the land being developed are not held by the Group. Instead, property development rights are held typically in the form of an investment contract or land lease agreement. On the acquisition of these assets by the Group in a business combination or other similar acquisition, these rights are initially recorded at fair value and presented on the balance sheet as intangible assets. While the Directors believe that these rights can be readily purchased and sold in the market, given that the market in Moscow is not fully transparent and specifically prices are not generally available to the public, it has been assessed that compliance with IFRS restricts the Group from revaluing these assets at each balance sheet date. With the majority of the value of each development project attaching to these rights, the Directors consider that endeavouring to accurately revalue just the property development expenses element results in additional costs without enhancing the usefulness of the financial statements. The Directors therefore only consider a valuation approach to be appropriate once the developments are completed and the properties are to be classified as investment properties in accordance with IAS 40 "Investment Property". Accordingly, only where required by accounting standards have assets and liabilities been recorded at fair values in these financial statements. This includes the fair valuation on initial recognition of the separately identifiable assets, liabilities and contingent liabilities acquired as part of a business combination or within the jointly controlled entity on acquisition.

##### Determination of fair values for property development rights

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. The Group has obtained a report from an international valuation company setting out the estimated market values for the land plots in their current state but assuming development permits will be obtained. In addition to these values, the Directors have considered it appropriate in some cases to apply a discount to the market values proposed by the professional valuer in order to reflect the absence of full permits and permissions relating to the development of the sites as at the date of acquisition and therefore representing a restriction on the Group's ability to achieve the appraised values for the sites where they were to be sold to third parties on an arm's-length basis. The discounts applied represent the Directors' estimate of the risk premium that would be commanded by an acquirer. The discount that has been applied ranges from 0% to 20%, and has been applied depending on the status of obtaining the relevant licences and permits as at the date of acquisition, with the discount being greater where the development project is in an earlier stage of development. Had a different assessment been made, either of the assumptions underlying the valuation report, or the discounts applied to reflect the lack of all required development licences and permits, the recorded fair values of the property development rights would have been higher or lower as at the date of acquisition. The quantification of such different assessments is provided below for the individual acquisitions made during the period.

##### Principal assumptions for management's estimation of fair value of property development rights acquired as part of the business combination on 30 June 2006

The principal assumptions underlying the Directors' estimate of fair value are those related to: the forecast sale or rental prices per square metre 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 metre; the level of developer profit assumed to be required in the current market 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:

- yield achieved on commercial or retail space, between 9% and 9.5%. 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\$16.2 million lower or US\$19.8 million higher;
- sale or rental prices, between US\$650 and US\$1,750 per square metre for office and retail space, and up to US\$20,000 per square metre for residential properties. 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\$14.6 million lower or US\$14.6 million higher; and
- construction costs, between US\$1,300 and US\$3,000 per square metre. 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\$10.2 million lower or US\$10.2 million higher.

The assumption for the developers' profit has been included based on the estimate of the return that development companies would expect to command in the current market when undertaking development projects. The Directors have determined the level based on their expectations for the Russian market, including the likelihood of an influx of competitors in the future.

In addition, the Directors have made an estimate of an appropriate discount to reflect the lack of all the required development licences and permits as at the date of acquisition. Were the estimate of an appropriate discount amount to differ by ten percentage points from management's estimates, the carrying value of the property development rights would be an estimated US\$9.6 million lower or US\$4.4 million higher.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

### Principal assumptions for management's estimation of fair value of property development rights acquired as part of the acquisition of Lafar Management Limited

The principal assumptions underlying the Directors' estimate of fair value are those related to: the forecast sale prices per square metre for residential accommodation in the Khilkov development on completion; the level of construction costs per square metre; the level of developer profit assumed to be required in the current market 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 up to US\$20,500 per square metre. 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\$11.7 million lower or US\$11.7 million higher; and
- construction costs, between US\$1,300 and US\$3,000 per square metre. 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\$3.8 million lower or US\$3.8 million higher.

The assumption for the developers' profit has been included based on the estimate of the return that development companies would expect to command in the current market when undertaking development projects. The Directors have determined the level based on their expectations for the Russian market, including the likelihood of an influx of competitors in the future.

### 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 the separately identifiable assets, liabilities and contingent liabilities within each business combination or the acquisition of the 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 judgement as part of the purchase price allocation. One of the assumptions was the effective interest rate in order to fair value liabilities such as borrowings.

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

### Accounting for transaction between equity holders

The Directors have considered the appropriate accounting for acquisition of the minority interest, as detailed in note 22, and concluded that the excess of the book value of the minority interest at the date of acquisition compared to the consideration paid should be accounted as negative goodwill and recorded in the income statement. Had the transaction been accounted for solely as a movement within equity using the economic entity model, the amount of negative goodwill recognised in the income statement would have been lower by US\$15,891,000.

### Accounting for interests in joint ventures

The Directors have considered the appropriate accounting for the Group's interest in jointly controlled entities, and have decided to apply the equity method of accounting and include the Group's share of the net assets and results for the period of the joint venture on single lines, rather than follow the proportional consolidation alternative. If the proportional consolidation approach had been followed, while there would be no impact on the overall net assets or profit of the Group, the presentation of individual balances would have been different. Refer to note 10 for financial information of the jointly controlled entity.

### Accounting for contingent consideration

For the acquisition of Yialoka Holdings Limited, as detailed in note 24, the contingent consideration is dependent on a resolution being issued by the Moscow City Government in order to provide the Group with property development rights in relation to the Taganka site. The Directors have not applied a discount to this amount to reflect the probability that this resolution will not be issued. The Directors have considered that as the probability of such a resolution being issued is high, any adjustment would not be significant to the financial statements. Accordingly, the decision has been taken not to attempt to make any such adjustment within these financial statements.

### Allocation of transaction costs between equity and income

The Directors have considered that certain individual expenditures in connection with the Admission were connected to the listing of shares and not incremental to the raising of new finance. Accordingly, all these items have been charged as an expense in the period. The only costs deducted from equity relate to expenses determined as a percentage of the gross proceeds raised, and the incremental element of the printing and distribution costs. Had the Directors considered a different basis of allocation to be appropriate, for example, splitting the costs evenly across the number of shares in issue following the Admission, the charge to the income statement for the period could have been US\$9.478 million higher.

### Capital transactions

As part of the agreement related to the investment into the Company by SSF III Fathers Holdings Limited on 27 September 2006, the existing shareholder of the Group on that date converted for no consideration the outstanding loan balance provided by the ultimate parent to the Company of US\$5,532,000 into the share capital of the Company. The Directors have considered that in substance this conversion was part of a capital transaction and accordingly not a difference between the amount paid and the carrying value of the borrowings that would ordinarily have been recognised in the income statement. Had the Directors considered that a gain had arisen on this aspect of the transaction, the profit for the period would have been US\$5,532,000 higher.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

##### Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to note 34.

##### Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Judgement 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 judgement is pricing for similar types of transactions with unrelated parties.

#### 5. STANDARDS AND INTERPRETATIONS OF EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following interpretations of existing standards have been published that are mandatory for annual periods beginning on or after 1 January 2007 or later and which the Group has not early adopted:

##### ***IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures***

The IFRS (effective from 1 January 2007) introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*.

The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it is managed. IFRS 7 and the Amendment to IAS 1 do not impact on the valuation of the Group's financial instruments. The Directors are currently assessing the impact of IFRS 7 and Amendment to IAS 1 on the financial statements.

##### ***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 organisation 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 and specifies how an entity should report such information.

##### **Other new standards or interpretations**

The Group has not early adopted the following other new standards or interpretations:

- *IFRIC 7, Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- *IFRIC 8, Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- *IFRIC 9, Reassessment of Embedded Derivatives* (effective for periods beginning on or after 1 June 2006, that is from 1 January 2007);
- *IFRIC 10, Interim Financial Reporting and Impairment* (effective for periods beginning on or after 1 November 2006, that is from 1 January 2007);
- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective for periods beginning on or after 1 March 2007, that is from 1 January 2008);
- *IFRIC 12, Service Concession Arrangements* (effective for periods beginning on or after 1 January 2008).

Except IFRS 7 and the related Amendment to IAS 1, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

Certain of the above standards or interpretations have not yet been endorsed by the European Union.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 6. PROPERTY DEVELOPMENT RIGHTS

The Group, through its Russian subsidiaries, has obtained property development rights represented either by investment contracts with the Moscow City Government or acquired land use rights.

The investment contracts and land use rights are amortised using a straight-line method during the development and construction stage until the completed property is to be registered with the Moscow City Government. The amortisation is capitalised as part of property development expenses. Once the developments are complete, a long-term land lease of 49 years in respect of each property is typically obtained.

In respect of the Group's current development projects, the following contracts were held:

	INVESTMENT CONTRACT US\$'000	LAND USE RIGHTS US\$'000	PROPERTY DEVELOPMENT RIGHTS US\$'000
<b>At 14 March 2006</b>	–	–	–
Property development rights held by subsidiaries acquired	19,081	64,095	83,176
Translation difference	542	2,085	2,627
Amortisation	(3,925)	(13,164)	(17,089)
<b>At 31 December 2006</b>	<b>15,698</b>	<b>53,016</b>	<b>68,714</b>

There were no disposals of property development rights during the period. The investment contract relates to a co-investment agreement with the Moscow City Government in relation to the Zemlianyoy project being developed by LLC Dinas. The co-investment agreement sets out that the Moscow City Government will obtain a 5% ownership interest in the completed property.

The land use rights held are detailed below:

NAME OF SUBSIDIARY THAT HAS ENTITLEMENT TO THE LEASE AGREEMENT	DATE LAND USE RIGHT ACQUIRED BY THE GROUP	PERIOD OF THE LEASE FROM THE DATE OF ACQUISITION
LLC Ostozhie	30 June 2006	24 years
LLC Central Market	30 June 2006	47 years

As at 31 December 2006, the Directors have reviewed the property development rights for any indication of impairment. The review was based on updated current valuations of the Group's current property developments as undertaken by an independent valuer. There were no indicators of impairment identified and accordingly the Directors consider that the carrying values as at 31 December 2006 do not require adjustment.

## 7. DEVELOPMENT LICENCES

A Government decree dated 14 November 2005 granted development licences to LLC Project Bureau that permit LLC Project Bureau to develop real estate projects in the Russian Federation. The licences expire on 14 November 2010. The licences are amortised using a straight-line method until their expiry date. The amortisation is capitalised as part of property development expenses. The licences are renewable for a nominal fee on application to the Moscow City Government for additional five-year periods on a rolling basis. Given the uncertainties in the business environment in the Russian Federation, the Directors consider amortisation over a maximum of a five-year period is appropriate. LLC Project Bureau was acquired by the Group on 30 June 2006.

As at 31 December 2006, the Directors have reviewed for any indication of impairment of the development licences. The Group expects to obtain value from the development licences as development and construction work on its current projects continues. Accordingly, with no indicators of impairment noted, the Directors consider that the carrying value as at 31 December 2006 does not require adjustment.

	DEVELOPMENT LICENCES US\$'000
<b>At 14 March 2006</b>	–
Development licences held by subsidiaries acquired	400
Translation difference	11
Amortisation	(46)
<b>At 31 December 2006</b>	<b>365</b>

## 8. PROPERTY DEVELOPMENT EXPENSES

	PROPERTY DEVELOPMENT EXPENSES US\$'000
Property development expenses – properties to be held	29,306
Property development expenses – inventory	29
<b>At 31 December 2006</b>	<b>29,335</b>

Property development expenses relate both to the development sites that the Group expects to hold for long-term rental yields or for capital appreciation or both, and that are not to be occupied by the Group and will be classified as investment property on completion. Where properties are being developed for intended sale on completion, these costs are recorded as inventory.

	PROPERTY DEVELOPMENT EXPENSES PROPERTIES TO BE HELD US\$'000	PROPERTY DEVELOPMENT EXPENSES INVENTORY US\$'000	TOTAL PROPERTY DEVELOPMENT EXPENSES US\$'000
<b>At 14 March 2006</b>	–	–	–
Acquired as part of business combination	6,909	43	6,952
Translation difference	196	1	197
Expenses capitalised during the period	20,314	(15)	20,299
Borrowing costs capitalised during the period	1,887	–	1,887
<b>At 31 December 2006</b>	<b>29,306</b>	<b>29</b>	<b>29,335</b>

Interest costs on borrowings that relate specifically to development projects are capitalised in full as part of property development expenses. The interest costs on other borrowings not specific to projects are expensed to the income statement during the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 9. PLANT AND EQUIPMENT

	OFFICE AND COMPUTER EQUIPMENT US\$'000	MOTOR VEHICLES US\$'000	TOTAL US\$'000
<b>Cost and carrying value at 14 March 2006</b>	–	–	–
Acquisitions through business combination (note 23)	14	16	30
Additions	32	58	90
Depreciation charge	(5)	(5)	(10)
<b>Carrying value at 31 December 2006</b>	<b>41</b>	<b>69</b>	<b>110</b>
<b>Cost at 31 December 2006</b>	<b>46</b>	<b>74</b>	<b>120</b>
Accumulated depreciation	(5)	(5)	(10)
<b>Carrying value at 31 December 2006</b>	<b>41</b>	<b>69</b>	<b>110</b>

## 10. 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 Podvorye, the entity that is involved in the development of a luxury residential development at 3 Khilkov Lane.

Details of the acquisition of the Group's interest in Lafar Management Limited is set out in note 25.

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 the period from 19 September 2006 to 31 December 2006:

	31 DECEMBER 2006 US\$'000
<b>ASSETS</b>	
<b>Non-current assets</b>	
Property development rights	140,862
Property development expenses	35,440
<b>Total non-current assets</b>	<b>176,302</b>
<b>Current assets</b>	
Debtors and prepayments	29
Cash and cash equivalents	332
<b>Total current assets</b>	<b>361</b>
<b>Total assets</b>	<b>176,663</b>
<b>LIABILITIES</b>	
<b>Non-current liabilities</b>	
Other payables	701
Borrowings	4,425
Deferred income tax liability	37,883
<b>Total non-current liabilities</b>	<b>43,009</b>
<b>Current liabilities</b>	
Borrowings	15,617
Trade and other payables	3
<b>Total current liabilities</b>	<b>15,620</b>

## 10. INVESTMENT IN JOINTLY CONTROLLED ENTITY CONTINUED

	31 DECEMBER 2006 US\$'000
<b>EQUITY</b>	
Share capital	1
Retained earnings	115,607
Profit of current period	2,426
<b>Total equity</b>	<b>118,034</b>
<b>Total liabilities and equity</b>	<b>176,663</b>
<b>INVESTMENT IN JOINTLY CONTROLLED ENTITY (50%)</b>	<b>59,017</b>
<b>SHARE OF PROFIT JOINTLY CONTROLLED EQUITY</b>	
Share of profit for the period since acquisition (50%)	1,213
Negative goodwill arising on the acquisition (see note 25)	31,966
Translation difference	559
<b>Total share of profit of jointly controlled entity</b>	<b>33,738</b>

The total profit of US\$2,426,000 for the period includes revenue of US\$2,710,000, and total costs and expenses of US\$284,000.

## 11. LONG-TERM LOANS

BORROWER	ORIGINAL CURRENCY OF LOAN	TOTAL AMOUNT OF LOANS US\$'000	INTEREST RATE ON LOAN (FIXED) %	NOMINAL		OUTSTANDING AMORTISED COST AT 2006 US\$'000
				31 DECEMBER REPAYMENT DATE	NOMINAL LOAN AMOUNT AT 31 DECEMBER 2006 US\$'000	
Lafar Management Limited	US\$	2,446	6	24 Sept 2008	2,446	2,213
<b>Total long term-loans</b>					<b>2,446</b>	<b>2,213</b>

The effective interest rate applied for the amortisation of the loan is 13% per annum, being the Directors' assessment of a market interest rate for similar loans at origination. The Directors consider that the carrying value of the loan approximates to its fair value.

## 12. PREPAYMENTS

	31 DECEMBER 2006 US\$'000
Prepayment for development work in relation to 15 Butikovsky Lane	8,910
Prepayment for design and investigation works in relation to 15 Tsvetnoy Boulevard	359
Prepayment for investigation works in relation to 37 Ostozhenka Lane	14
Prepayment for design works in relation to new office	16
<b>Total prepayments</b>	<b>9,299</b>

On 23 October 2006, the Group's subsidiary Nospelt Limited entered into an agreement to obtain a 70% interest in the entire Butikovsky Development registered in its name upon completion of construction and a further agreement to have the remaining 30% interest (assuming the prior acquisition by the project developer, ZAO Inpromtex, of the Moscow Government's share) in the Butikovsky Development transferred to it by ZAO Inpromtex upon registration of such interest in ZAO Inpromtex's name following completion of construction. The total consideration payable, inclusive of VAT, is US\$24,460,000, with this amount payable in stages according to the status of the development's construction and registration of the completed development. The total consideration payable, inclusive of VAT, to acquire 70% of the completed property is US\$16,200,000, and US\$8,260,000 for 30% of the completed property. Such payments are either refundable or are not required to be made in certain circumstances such as termination of the agreements in accordance with the terms of such agreements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 13. DEBTORS AND PREPAYMENTS

	31 DECEMBER 2006 US\$'000
Prepaid expenses	626
Trade receivables	395
VAT	49
Other receivables	81
<b>Total debtors and prepayments</b>	<b>1,151</b>

## 14. 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 2006 US\$'000
Current accounts denominated in RUR	1,404
Current accounts denominated in US\$	4,950
Short-term deposit (in US\$)	150,000
Overnight deposit (in US\$)	7,010
Cash in hand (in RUR)	1
<b>Total cash and cash equivalents</b>	<b>163,365</b>

Current accounts held in RUR and US\$ are non-interest bearing accounts. Interest is earned on the amounts on deposit at market interest rates (at rates between 4.86 – 5.18% per annum).

The short-term deposit matured on 16 January 2007 and was subsequently reinvested. The Directors intend to continue placing surplus cash resources on deposit with international financial institutions until such time as required by the business operations.

## 15. INCOME TAX

The income tax expense comprises the following:

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
Current tax	15
Deferred tax	133
<b>Income tax expense for the period</b>	<b>148</b>

The Group operates in three 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 or the Russian Federation.

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 and 24% in the Russian Federation.

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%.

## 15. INCOME TAX CONTINUED

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

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
<b>Profit before taxation</b>	<b>88,419</b>
Theoretical tax charge at the applicable statutory rate (24%)	21,221
<b>Tax effect of items not deductible or assessable for taxation purposes:</b>	
– Income not subject to tax: negative goodwill	(21,720)
– Income not subject to tax: other	(344)
– Transaction costs not deductible for taxation purposes	991
<b>Income tax expense for the period</b>	<b>148</b>

As the majority of the Group's operations are conducted in the Russian Federation, the Directors apply the tax rate ruling in the Russian Federation as the applicable statutory tax rate for the purposes of the above reconciliation, currently 24%.

	14 MARCH 2006 US\$'000	BUSINESS COMBINATIONS US\$'000	DEFERRED TAX RECOGNISED IN EQUITY FOR TRANSLATION DIFFERENCE	MOVEMENT US\$'000	31 DECEMBER 2006 US\$'000
<b>Tax effect of deductible temporary differences</b>					
Expenses capitalised for tax purposes	–	19	–	66	85
<b>Gross deferred tax asset</b>	<b>–</b>	<b>19</b>	<b>–</b>	<b>66</b>	<b>85</b>
<b>Tax effect of taxable temporary differences</b>					
Recognition of property development rights at fair value	–	19,930	630	–	20,560
Recognition of development licences at fair value	–	96	3	(11)	88
Capitalisation of qualifying costs	–	36	1	78	115
Capitalised interest expense	–	5	–	7	12
Other	–	7	–	125	132
<b>Gross deferred tax liability</b>	<b>–</b>	<b>20,074</b>	<b>634</b>	<b>199</b>	<b>20,907</b>
<b>Total net deferred tax liability</b>	<b>–</b>	<b>20,055</b>	<b>634</b>	<b>133</b>	<b>20,822</b>

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 16. BORROWINGS

The loan agreements that are in place as at 31 December 2006 are set out below:

LENDER	ORIGINAL CURRENCY OF LOAN	TOTAL AMOUNT OF BORROWING FACILITY US\$'000	NOMINAL INTEREST RATE ON LOAN (FIXED)	REPAYMENT DATE	OUTSTANDING NOMINAL LOAN AMOUNT AT 31 DECEMBER 2006 US\$'000	AMORTISED COST AT 31 DECEMBER 2006 US\$'000
Hinter View Limited	US\$	2,400	5.5%	1 May 2007	2,609	2,543
Hinter View Limited	US\$	2,000	5.5%	1 Feb 2007	1,341	1,332
<b>Total borrowings</b>					<b>3,950</b>	<b>3,875</b>

All interest rates on loans are fixed until maturity. The effective interest rate applied for the calculation of the loans on an amortised cost basis is 13%, being the market interest rate for similar loans as at the date of inception of the loan or its date of transfer to the Group on acquisition. Accrued interest is included within the outstanding loan amount above.

The Group has undrawn borrowing facilities available to it, should additional finance be required. The total amount of undrawn facilities as at 31 December 2006 was US\$700,000, related to a facility provided by Hinter View Limited.

Subsequent to the period end in February 2007, the Group signed an additional agreement that changed the repayment date for the outstanding nominal amount at 31 December 2006 of US\$2,609,000. It was repaid on 28 February 2007, instead of the previous repayment date of 1 May 2007.

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

	HINTER VIEW LIMITED US\$'000	DENHURST VIEW LIMITED US\$'000	ZAO INPROMTEX US\$'000	D.E.S. COMMERCIAL HOLDINGS LIMITED US\$'000	DIRECTWAY INVESTMENTS LIMITED US\$'000	TOTAL US\$'000
<b>As at 14 March 2006</b>	–	–	–	–	–	–
Acquisitions of subsidiaries (note 23)	2,689	4,012	36	1,000	1,189	8,926
Translation differences	76	114	1	28	34	253
Draw down of loans in the period	1,110	–	–	3,063	–	4,173
Repayment of loans in the period	–	(2,981)	(37)	–	(1,223)	(4,241)
Unwinding of loan discount/premium	–	(1,145)	–	1,441	–	296
Loans settled by shareholders contribution	–	–	–	(5,532)	–	(5,532)
<b>At 31 December 2006</b>	<b>3,875</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,875</b>

## 17. CONTINGENT AND DEFERRED PURCHASE CONSIDERATION

Contingent purchase consideration includes consideration payable for the acquired subsidiaries by the Group, as follows:

	31 DECEMBER 2006 US\$'000
Liability for purchase of Yialoka Holdings Limited	5,200
<b>Total contingent purchase consideration</b>	<b>5,200</b>

The acquisition of Yialoka Holdings Limited is detailed in note 24. The consideration is payable within 60 days of a resolution being issued by the Moscow City Government permitting the Group to develop the Taganka project. If this resolution is not issued, then the Group is not liable for payment of the consideration payable.

Deferred purchase consideration includes consideration payable for the acquired subsidiaries and jointly controlled entity by the Group as follows:

	31 DECEMBER 2006 US\$'000
Liability for purchase of Lafar Management Limited	976
Liability for purchase of LLC Ostozhie	78
<b>Total deferred purchase consideration</b>	<b>1,054</b>

## 18. TRADE AND OTHER PAYABLES

	31 DECEMBER 2006 US\$'000
Trade payables	585
Directors' fees	657
Advances received	7
Other payables	1,272
<b>Total trade and other payables</b>	<b>2,521</b>

## 19. OTHER TAXES PAYABLE

	31 DECEMBER 2006 US\$'000
VAT	67
Property tax	2
Other taxes	14
<b>Total other taxes payable</b>	<b>83</b>

## 20. SHARE CAPITAL

The Company's share capital is denominated in British pounds ("GBP").

On incorporation, the authorised share capital of the Company comprised 500,000,000 shares of 0.0001 GBP with a nominal value of GBP 50,000. Of these, 2,000 shares were issued.

On 21 September 2006, the issued and authorised share capital of the Company was subdivided. All of the 500,000,000 ordinary shares of GBP 0.0001 each were subdivided on a 1 : 25,000 basis into ordinary shares with a par value of GBP 0.000000004 each. As a result of this split, the share capital comprised 50,000,000 issued shares and a total of 12,500,000,000 authorised shares, without a change in the total share capital value.

On 27 September 2006, the Company issued 9,090,909 additional shares, which were acquired by SSF III Fathers Holdings Limited for a total consideration of US\$30 million. As part of this agreement, on 9 November 2006, an additional 10,606,060 shares were issued, being distributed between D.E.S. Commercial Holdings Limited and Jacob Kriesler, who received 10,446,969 and 159,091 shares, respectively. The consideration payable in respect of these additional shares was nil.

On 13 December 2006, the Company issued 32,009,175 additional shares on Admission to AIM. The total gross proceeds were US\$192,219,000.

	NUMBER OF SHARES	NOMINAL AMOUNT IN ACTUAL GBP
<b>Authorised share capital as at 14 March 2006</b>	–	–
Authorised share capital (ordinary shares with a nominal value of 0.000000004 GBP each)	12,500,000,000,000	50,000
Issued ordinary shares with a nominal value of 0.000000004 GBP each	(101,706,144)	(0.41)
<b>Outstanding unissued authorised shares at 31 December 2006</b>	<b>12,499,898,293,856</b>	<b>49,999.59</b>

	NUMBER OF SHARES	NOMINAL AMOUNT IN ACTUAL GBP	CARRYING VALUE IN ACTUAL US\$
<b>Share capital as at 14 March 2006</b>	–	–	–
Issued and fully paid ordinary shares with a nominal value of 0.000000004 GBP each during the period	101,706,144	0.41	0.81
<b>Share capital as at 31 December 2006</b>	<b>101,706,144</b>	<b>0.41</b>	<b>0.81</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 20. SHARE CAPITAL CONTINUED

The shareholding structure as at 31 December 2006 was as follows:

SHAREHOLDERS	TOTAL SHARES HELD	OWNERSHIP IN THE COMPANY %
D.E.S. Commercial Holdings Limited	50,994,832	50.14
SSF III Fathers Holdings Limited	9,090,909	8.94
Kensington Gore Limited	8,702,137	8.56
Other (none individually greater than 3%)	32,918,266	32.36
<b>Total</b>	<b>101,706,144</b>	<b>100</b>

## 21. SHARE PREMIUM

	SHARE PREMIUM US\$'000
Premium arising on shares issued during the period	206,228
Shareholder contribution treated as additional share premium	10,493
<b>Total share premium</b>	<b>216,721</b>

The share premium arising on shares issued during the period is stated net of transaction costs of US\$15,991,000. There is no related income tax benefit to offset against these costs.

The shareholder contribution was made on 27 September 2006. The existing shareholder of the Group on that date, D.E.S. Commercial Holdings Limited converted for no consideration the outstanding loan balance provided by the ultimate parent to the Company of US\$5,532,000 into the share capital of the Company and made an additional investment of US\$4,961,000.

## 22. INCREASE IN OWNERSHIP OF LING INVESTMENTS LIMITED

On 7 November 2006, the Group purchased for a cash consideration of US\$1,400,000 the minority interest representing 40% of the share capital and voting rights of Ling Investments Limited and increased its ownership to 100%. No change of control occurred as a result of this transaction, and therefore the increase in ownership on 7 November 2006 has not been accounted for as a business combination. The Group had previously acquired a 60% interest in Ling Investments Limited and its subsidiary LLC Central Market as part of the business combination on 30 June 2006.

In a connected transaction, Kensington Gore Limited (a current shareholder as detailed in note 20) also acquired shares in the Company previously held by the majority shareholder as part of its total consideration receivable.

Details of the difference between the value of the minority interest acquired and the consideration paid by the Group are set out below:

	TOTAL US\$'000
<b>Book value of minority interest at date of acquisition</b>	<b>17,191</b>
Less: consideration paid in cash	(1,400)
<b>Negative goodwill</b>	<b>15,791</b>

## 23. BUSINESS COMBINATION ON 30 JUNE 2006

During the period from incorporation to 30 June 2006, the Group acquired the share capital of a number of entities, which together form a business. These transactions are accounted for as a single business combination with an effective date of 30 June 2006. The Directors consider that the inclusion of the property development company, LLC Project Bureau, was important in assessing that the acquisition of the Russian project entities collectively was a single business combination and therefore it is the date of the share purchase agreement for LLC Project Bureau that has been applied as the date of the acquisition of the business combination. On 30 June 2006, the Group acquired 100% economic and voting interests in the business of the following entities incorporated in Cyprus: Elorietta Limited; Toucho Investments Limited; Teruel Investments Limited; Nospelt Limited; Canalet Holding Limited and Lemoriano Limited; of the following entities incorporated in the Russian Federation: LLC Dinas; LLC Ostozhie; LLC Armix and LLC Project Bureau; and a 60% interest in Ling Investments Limited and its subsidiary LLC Central Market.

After making every reasonable effort to separately state the revenue and profit or loss of the combined entities for the period as though the acquisition date for the business combination had been the beginning of the period, the Directors believe that it is impracticable to do so.

The subsidiaries acquired during the period contributed US\$380,000 of revenue and US\$489,000 to the results of the Group for the period from 1 July 2006 to 31 December 2006.

### 23. BUSINESS COMBINATION ON 30 JUNE 2006 CONTINUED

Details of the separately identifiable assets, liabilities and contingent liabilities acquired as at 30 June 2006 are as follows:

	NOTE	IFRS CARRYING AMOUNT IMMEDIATELY BEFORE THE BUSINESS COMBINATION US\$'000	ATTRIBUTED FAIR VALUE US\$'000
Property development rights	6	133	83,176
Development licence	7	–	400
Property development expenses – properties to be held	8	6,909	6,909
Property development expenses – inventory	8	43	43
Cash and cash equivalents		3,128	3,128
Plant and equipment	9	30	30
Other assets		312	312
Borrowings	16	(8,926)	(8,926)
Borrowings made by the Company		(135)	(135)
Trade and other payables		(53)	(53)
Other liabilities		(54)	(54)
Deferred income tax liability	15	(29)	(20,055)
<b>Value of net assets of subsidiaries</b>		<b>1,358</b>	<b>64,775</b>
Less: minority interest			(16,742)
Less: negative goodwill on business combination	26		(41,463)
<b>Total purchase consideration</b>			<b>6,570</b>
<b>Payment of consideration:</b>			
<b>Total purchase consideration</b>			<b>6,570</b>
Deferred consideration as at 31 December 2006	17		(78)
<b>Total purchase consideration paid in cash</b>			<b>6,492</b>
Less: cash and cash equivalents of subsidiaries acquired			(3,128)
<b>Inflow of cash and cash equivalents on acquisition</b>			<b>3,364</b>

The negative goodwill that has arisen on this business combination is predominantly attributable to the fair valuation of the property development rights on the date of acquisition. These rights had been previously recognised at cost prior to the transfer of the business of the Group's founder, Chief Executive and controlling shareholder to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 24. ACQUISITION OF YIALOKA HOLDINGS LIMITED

On 5 September 2006, the Group acquired 100% of the share capital of Yialoka Holdings Limited. On 15 November 2006, Yialoka Holdings Limited acquired 100% of the share capital and voting rights of LLC Directway Investments. The Directors expect LLC Directway Investments to be the project entity for the Taganka project.

The Group has accounted for the acquisition as a business combination with an effective date of 15 November 2006.

The consideration payable for this acquisition is US\$5,200,000. The payment is contingent on the issue by the Moscow City Government of a resolution in order to allow the Group to develop the Taganka project. Where such a resolution is not issued, or is not issued by 15 November 2007, the acquisition may not be completed and no consideration will be payable.

This acquisition of Yialoka Holdings Limited did not contribute to the revenue or profit of the Group for the period from 15 November 2006 to 31 December 2006. If the acquisition had occurred at the beginning of the period, there would have been no impact on the Group's revenue or profit for the period.

The separately identifiable assets, liabilities and contingent liabilities acquired as part of the business combination are set out below, together with the consideration payable and the goodwill arising:

	IFRS CARRYING AMOUNT IMMEDIATELY BEFORE THE BUSINESS COMBINATION US\$'000	ATTRIBUTED FAIR VALUE US\$'000
Property development expenses – properties to be held	308	308
Cash and cash equivalents	186	186
Other assets	58	58
Other liabilities	(366)	(366)
<b>Value of net assets of subsidiaries</b>	<b>186</b>	<b>186</b>
Plus: goodwill		5,014
<b>Total purchase consideration</b>		<b>5,200</b>
<b>Payment of consideration:</b>		
<b>Total purchase consideration</b>		<b>5,200</b>
<b>Contingent consideration (note 17)</b>		<b>(5,200)</b>
<b>Total purchase consideration paid in cash</b>		<b>–</b>
Cash and cash equivalents of subsidiaries acquired		186
<b>Inflow of cash and cash equivalents on acquisition</b>		<b>186</b>

The Directors have performed an assessment of the carrying value of the goodwill generated through this business combination as at 31 December 2006 and concluded that pending any decision from the Moscow City Government there is no information indicating that the goodwill as recorded has been impaired and its recoverable amount is lower than stated. In the event of no resolution being issued, the impact on the financial statements would be limited since the contingent consideration would not be payable.

## 25. ACQUISITION OF LAFAR MANAGEMENT LIMITED

On 19 September 2006, the Group acquired 50% of the voting shares of Lafar Management Limited, a Cyprus registered company, for a cash consideration of US\$24,822,000. As a result of the acquisition, the Group obtained equal voting rights providing it with joint control over the entity in accordance with the Lafar Management Partnership Agreement.

The Group has accounted for the transaction as the acquisition of a joint venture entity.

Lafar Management Limited holds 100% of the share capital of its Russian subsidiary, LLC Stolichnoe Podvorye, that holds the development rights from the Moscow City Government to develop a residential complex at 3 Khilkov Lane in Moscow.

The separately identifiable assets, liabilities and contingent liabilities of Lafar Management Limited, the Group's share acquired thereof and the resulting goodwill arising are set out below:

	IFRS CARRYING AMOUNT IMMEDIATELY BEFORE THE ACQUISITION US\$'000	ATTRIBUTED FAIR VALUE US\$'000	50% OF ATTRIBUTED FAIR VALUE US\$'000
Property development rights	–	156,886	78,443
Property development expenses – inventory	1,148	1,148	574
Cash and cash equivalents	516	516	258
Other assets	20	20	10
Borrowings	(1,668)	(1,668)	(834)
Trade and other payables	(4,950)	(4,950)	(2,475)
Deferred income tax liability	–	(37,494)	(18,747)
Other liabilities	(892)	(882)	(441)
<b>Value of net assets of subsidiaries</b>	<b>(5,836)</b>	<b>113,576</b>	<b>56,788</b>
Less: negative goodwill (note 10)			(31,966)
<b>Total purchase consideration</b>			<b>24,822</b>
<b>Payment of consideration:</b>			
<b>Total purchase consideration</b>			<b>24,822</b>
<b>Deferred consideration (note 17)</b>			<b>(976)</b>
<b>Total purchase consideration paid in cash</b>			<b>23,846</b>

The negative goodwill arising as part of this acquisition demonstrates the Group's success in leveraging its expertise and past knowledge in developing luxury properties in central Moscow. The Directors consider that combining this ability with the development rights held by previously unconnected third parties can result in favourable opportunities for the Group and its partners.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 26. GOODWILL

The negative goodwill arising on the acquisitions during the period is summarised below. The negative goodwill has been recorded as a gain in the income statement within these financial statements. The negative goodwill arising on the acquisition of Lafar Management Limited has been recorded as part of the share of the profit of Lafar Management Limited (see note 10):

	NOTE	NEGATIVE GOODWILL US\$'000
<b>At 14 March 2006</b>		–
Acquisition of minority interest related to Ling Investments Limited	22	15,891
Business combination on 30 June 2006	23	41,463
Other		1,178
<b>At 31 December 2006</b>		<b>58,532</b>

The goodwill arising on the acquisitions during the period is summarised below. The goodwill is recorded on the Group's balance sheet within these financial statements:

	NOTE	GOODWILL US\$'000
<b>At 14 March 2006</b>		–
Acquisition of Yialoka Holdings Limited	24	5,014
Translation difference		61
<b>At 31 December 2006</b>		<b>5,075</b>

## 27. REVENUE

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
Revenue from project services	313
Rental income	43
Other services rendered	24
<b>Total revenue</b>	<b>380</b>

During the initial operations of the Group with most of the development projects at the early stages of construction, the revenue generated by the Group is not significant. However, revenue has arisen from the Group providing design, technical and other similar services to other entities outside of the Group.

## 28. CONSULTING AND OTHER PROFESSIONAL SERVICES

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
Project services	252
Audit, accounting, other professional services	1,561
Legal services	2,101
Other	723
<b>Total consulting and other professional services</b>	<b>4,637</b>

Included within consulting and other professional services are expenses in connection with the Company's listing of its ordinary shares. These balances only include that element of the total costs incurred that have been charged to the income statement in the period.

The total transaction costs connected to the Company's listing and issue of new shares were US\$20,122,000. The remainder not included above has been deducted from equity. See note 21.

## 29. GENERAL AND ADMINISTRATIVE EXPENSES

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
Lease payments on development sites	113
Wages and salaries	19
Rent	32
Property tax	17
Other	54
<b>Total general and administrative expenses</b>	<b>235</b>

## 30. INTEREST INCOME

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
Interest income	238
<b>Total interest income</b>	<b>238</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 31. NET CASH OUTFLOW FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	PERIOD FROM 14 MARCH 2006 TO 31 DECEMBER 2006 US\$'000
	NOTE
Profit before tax	88,419
<b>Adjustments for:</b>	
Negative goodwill on business combination	26 (58,532)
Depreciation	10
Share of profit of jointly controlled entity	(33,738)
Accretion of discount on payables	326
Interest income	(238)
Other non-cash operating activities	(1,014)
<b>Operating cash flows before working capital changes</b>	<b>(4,767)</b>

## 32. FINANCIAL RISK MANAGEMENT

The Group considers its risks in respect of financial risks (credit, market, geographical, foreign exchange, liquidity and interest rate), operational risks and legal risks. The primary objectives 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 minimise operational and legal risks both currently and in the future.

### 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 and cash and cash equivalents.

The carrying amount of accounts receivable, loans and balances with banks represents the maximum amount that the Group is exposed to credit risk. 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. Cash and cash equivalents are placed in financial institutions, which are considered at the time of the deposit to have a minimal risk of default. As at the year end date, a majority of cash and cash equivalents were held with a single financial institution. The Directors believe the risk of default of this institution low, but will continue to monitor future placings of deposits in order to minimise credit risk exposure.

### Market risk

The Group takes on exposure to market risks. Market risks mainly arise from uncertainties concerning future prices on real estate, specifically on the sale of luxury residential properties and the rental of high quality office accommodation and retail units in central Moscow.

### Geographical risk

The Group's operations primarily occur within the Russian Federation. The Russian Federation continues to display certain characteristics of an emerging market. As such, the Group is exposed to any deterioration of the business environment within the Russian Federation, and the agreements in force with the countries its other entities are located in, Cyprus and Guernsey.

### Foreign exchange risk

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 2006, the Group was exposed to foreign exchange risks arising from various currency exposures, primarily with respect to US dollars and Russian roubles. A foreign exchange risk arises from recognised monetary assets and liabilities. The Group's policy is not to enter into any currency hedging transactions in respect of these risks. However, the majority of expenditure and revenues of the Group are denominated in US dollars, as are the cash resources of the Group and accordingly the Directors believe that the impact on foreign exchange movement as recorded in the Company's functional currency the Russian rouble is not significant. The disclosures of financial instruments by currency are presented in notes 11, 14, and 16.

### Liquidity risk

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

## 32. FINANCIAL RISK MANAGEMENT CONTINUED

### Interest rate risk

Interest rate risk arises due to the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Group. Cash flow interest rate risk is minimised since all borrowings in the Group are at fixed interest rates, however, the Group is exposed to fair value interest rate risk on its borrowings. The Group is 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.

## 33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments.

### Borrowings

The fair value of borrowings on initial recognition has been calculated using a discount rate of 13%.

The Directors believe that the attributed carrying values including interest amounts accrued represent the best estimate of fair value on inception and as at 31 December 2006. To the extent that the interest rate differs by +/- 1%, the fair value would be an estimated US\$9,000 lower or US\$9,000 higher respectively as at 31 December 2006.

## 34. 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.

### Tax legislation

The Company has exempt tax status in Guernsey. The Directors manage the Company in such a manner that this is not expected to change. The Group also operates in Cypriot 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. 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 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%.

The Directors have assessed the fair value of any tax risks identified as arising on the business combinations during the period as nil.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and 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 organisational, 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 2006 no provision for potential tax liabilities was recorded.

### Capital expenditure commitments

At 31 December 2006, the Group had contractual capital expenditure commitments in respect of property development totalling US\$12,140,000. The Group has already allocated the necessary resources in respect of these commitments.

As detailed in note 12, the Group's subsidiary Nospelt Limited has entered into an agreement to obtain a 70% interest in the Butikovsky Development. The total consideration payable, inclusive of VAT, is US\$24,460,000, of which US\$8,910,000 has been paid by 31 December 2006. The remaining commitment in relation to these agreements is US\$15,550,000.

The Group has committed to provide a financing facility of up to US\$20 million to its jointly controlled entity, Lafar Management Limited. This commitment is matched by the joint venture partner, and amounts are to be paid equally by each partner. As at 31 December 2006, the Group had not provided any of this finance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 34. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

### Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	31 DECEMBER 2006 US\$'000
Not later than one year	72
Later than one year and not later than five years	199
Later than five years	2,620
<b>Total operating lease commitments</b>	<b>2,891</b>

The Group's operating leases relate to the lease of land from the Moscow City Government, for a period between 24 and 47 years and can be used by the lessee for the purpose agreed in advance with the lessor. The office premises occupied by the Group in Moscow are owned by LLC Ostozhie and as such no additional operational lease agreements are in force as at 31 December 2006.

### Guarantees

During the reporting period the Group has not granted any guarantees or provided collateral to third parties.

### Insurance policies

The Group holds insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks. The total insurance coverage is US\$234,000.

### 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 recognised 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 Group through its operations has significant exposure to Russia's economy and financial markets. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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.

### Contingent liabilities of joint venture

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

### 35. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions as defined by 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 2006 are detailed below:

#### Borrowings received, made and repaid:

	LAFAR MANAGEMENT LIMITED US\$'000	ZAO INPROMTEX US\$'000	D.E.S. COMMERCIAL HOLDINGS LIMITED US\$'000	DIRECTWAY INVESTMENTS LIMITED US\$'000	DENHURST VIEW LIMITED US\$'000
Borrowings obtained through acquisitions during the period (note 23)	–	36	1,000	1,189	4,012
Translation difference	–	1	28	34	114
Unwinding of loan discount or premium	–	–	1,441	–	(1,145)
Other loans received from related parties during the period	–	–	3,063	–	–
Borrowings repaid to related parties during the period	–	(37)	–	(1,223)	(2,981)
Borrowings offset against shareholders contribution (note 21)	–	–	(5,532)	–	–
Loans provided to related parties during the period (note 11)	2,446	–	–	–	–
Total outstanding loans and accrued interest due to related parties	–	–	–	–	–
Total outstanding loans and accrued interest due from related parties (note 11)	2,446	–	–	–	–
Total interest income/(expense) during the period	38	(1)	–	(36)	(99)

ZAO Inpromtex, D.E.S. Commercial Holdings Limited, Directway Investments Limited and Denhurst View Limited are entities beneficially owned and controlled by the Group's ultimate controlling party, Mr. Boris Kuzinez. Lafar Management Limited is a jointly controlled entity in which the Group holds an economic interest of 50%.

#### Subscription in the Company's equity

Prior to the incorporation of the Company, it was agreed by D.E.S. Commercial Holdings Limited and Jacob Kriesler that shares in the Company amounting to 1.5% of the issued share capital of the Company would be held by Jacob Kriesler. Further to this agreement, on 29 August 2006, Jacob Kriesler was transferred 30 shares in the Company by D.E.S. Commercial Holdings Limited, representing 1.5% of the total issued ordinary shares. The consideration paid of US\$ 7,500 was equal to the fair value of those shares on the date of incorporation of the Company. The Directors have considered that this transaction is a capital transaction and not connected to Jacob Kriesler's service as a Director of the Company. In addition, on 9 November 2006, Jacob Kriesler received a further 159,091 shares for no consideration based on an agreement effective on 27 September 2006. These shares were issued as part of an adjustment to the number of ordinary shares in issue in order for an equity interest of 1.5% in the Company, being the percentage held prior to the issue of new shares, to be maintained prior to the investment by a third party investor on that date.

#### Shareholder contribution

On 27 September 2006, the controlling shareholder of the Group made a shareholder contribution of US\$5,532,000 as a waiver of the outstanding borrowings due to D.E.S. Commercial Holdings Limited, and an additional investment of US\$4,961,000. The total amount has been accounted for as additional share premium. See note 21.

#### 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\$850,000. There are no other individuals who are not Directors who are considered to be key management in the Group. As detailed in note 18, US\$657,000 was outstanding as at 31 December 2006. The total amount paid in relation to defined contribution benefit plans amounted to US\$120,000 during the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 35. RELATED PARTY TRANSACTIONS CONTINUED

### Transactions in relation to the business combination as at 30 June 2006

As part of the business combination, the following consideration was paid to the following individual parties with the outstanding amount as at the balance sheet date. Further information on the business combination is set out in note 23:

	TOTAL CONSIDERATION US\$'000	OUTSTANDING LIABILITY US\$'000
<b>Related party transactions</b>		
ZAO Inpromtex	1,472	–
Denhurst View Limited	2,000	–
Whyre Holdings Limited	1,200	–
Boris Kuzinez	1,800	–
<b>Other transactions</b>		
Vera Ryazanova	78	78
Natalia Martynenko	3	–
<b>Total</b>	<b>6,553</b>	<b>78</b>

**D.E.S. Commercial Holdings Limited, ZAO Inpromtex, Denhurst View Limited and Whyre Holdings Limited** are entities beneficially owned by the Group's founder, Chief Executive and controlling shareholder, Boris Kuzinez.

**Boris Kuzinez** is the ultimate controlling party of the Group and a member of the Group's key management.

**Natalia Martynenko and Vera Ryazanova** are not related parties as defined by IAS 24 "Related Party Transactions" but are connected to the ultimate controlling party through employment contracts or family relationships.

### Transactions in relation to the acquisition of Yialoka Holdings Limited

As detailed in note 24, the Group acquired 100% of the share capital of Yialoka Holdings Limited and its subsidiary LLC Directway Investments. LLC Directway Investments was previously owned by Directway Investments Limited (Great Britain).

### Transactions between equity holders

As detailed in note 22, a transaction between the equity holders of the Company resulted in the minority interest representing 40% of the share capital and voting rights of Ling Investments Limited being acquired and such providing the Group with a 100% equity interest in Ling Investments Limited. The consideration paid by the Group was US\$1,400,000. In a related transaction, the Group's majority shareholder transferred shares held in the Company to the former holder of the minority interest such that the total consideration received was equivalent to the approximate market price of the 40% interest in Ling Investments Limited.

### Agreement to acquire the Butikovsky Development

As detailed in note 12, on 23 October 2006, the Group's subsidiary Nospelt Limited entered into an agreement with ZAO Inpromtex to obtain a 70% interest in the entire Butikovsky Development registered in its name upon completion of construction and a further agreement to have the remaining 30% interest (assuming the prior acquisition by the project developer, ZAO Inpromtex, of the Moscow Government's share) in the Butikovsky Development transferred to it by ZAO Inpromtex upon registration of such interest in ZAO Inpromtex's name following completion of construction. The total consideration payable, inclusive of VAT, is US\$24,460,000. US\$8,910,000 had been paid during the period ended 31 December 2006.

### 35. RELATED PARTY TRANSACTIONS CONTINUED

#### Other transactions with related parties:

	RELATED PARTY	TRANSACTIONS VALUE DURING THE PERIOD US\$'000	OUTSTANDING AMOUNT AT 31 DECEMBER 2006 US\$'000
<b>Construction agreements (revenue for the Group)</b>	ZAO Inpromtex	44	44
	<b>Total</b>	<b>44</b>	<b>44</b>
<b>Construction agreements (expenditure for the Group)</b>	Solarium Properties Limited	311	(98)
	Directway Investments Limited	368	368
	<b>Total</b>	<b>679</b>	<b>270</b>
<b>Design agreements (revenue for the Group)</b>	ZAO Inpromtex	269	175
	<b>Total</b>	<b>269</b>	<b>175</b>
<b>Purchase of equipment (expenditure for the Group)</b>	ZAO Inpromtex	12	12
	Directway Investments Limited	5	–
	Crawnway Investments Limited	5	–
	Skladskaya Baza TNP LLC	15	–
	<b>Total</b>	<b>37</b>	<b>12</b>
<b>Rent contracts (revenue for the Group)</b>	Gabion LLC	2	2
	Devonport Holdings Limited	4	–
	Directway Investments Limited	6	–
	ZAO Inpromtex	5	–
	Crawnway Investments Limited	2	–
	Khorog Investments Limited	1	–
	Paritet Limited LLC	1	1
	Privat Standart LLC	1	–
	Profit Invest LLC	1	–
	Skladskaya Baza TNP LLC	4	–
	Tolling LLC	1	1
	Citadel LLC	1	1
	<b>Total</b>	<b>29</b>	<b>5</b>
<b>Rent contracts (expenditure for the Group)</b>	Directway Investments Limited	2	–
	<b>Total</b>	<b>2</b>	<b>–</b>
<b>Management agreements (revenue for the Group)</b>	Directway Investments Limited	10	–
	Khorog Investments Limited	4	(7)
	Paritet Limited LLC	2	2
	Privat Standart LLC	2	–
	Profit Invest LLC	2	–
	Tolling LLC	2	2
	Citadel LLC	2	2
	<b>Total</b>	<b>24</b>	<b>(1)</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 36. SEASONALITY

The Group's business displays some seasonality characteristics, mainly due to reduced ability to undertake construction work during the winter months in Moscow. This seasonality, however, does not have a significant influence on the overall operations of the Group and for each development the construction schedule is planned accordingly.

## 37. EARNINGS PER SHARE

The basic 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.

The Company undertook a share split on 21 September 2006, where the issued and authorised ordinary shares of GBP 0.0001 each were subdivided on a 1:25,000 basis into ordinary shares with a par value of GBP 0.000000004 each. As a result, the number of shares has changed without any corresponding change in resources.

	EARNINGS	SHARES	PER SHARE
Profit attributable to ordinary equity holders of the Company for the period ended 31 December 2006	88,257		
Weighted average number of ordinary shares outstanding during the period after adjusting for the share split		56,207,290	
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US\$ per share)</b>			<b>1.57</b>

## 38. EVENTS AFTER THE BALANCE SHEET DATE

In January 2007, the Group obtained the construction permit in respect of the Tsvetnoy development and the construction on this site commenced.

On 14 March 2007, the Group signed a lease agreement effective through to the end of 2011 in respect of the Butikovskiy office building currently under construction. The rental income for the new lease is US\$5.1 million per annum excluding maintenance charges and VAT. The rent agreed is in excess of 10% more than that used in the Industry consultant's valuation report for this property as at 31 December 2006.

On 19 March 2007, the Group announced that it had agreed to acquire two new development projects in Moscow for a total consideration of US\$140 million. The investment in these new projects will approximately treble the aggregate area of the portfolio that the Group currently plans to develop in Moscow from around 160,000 square metres to between approximately 440,000 and 550,000 square metres. Information on these two acquisitions is set out below:

### Chelsea Development

Pursuant to a share purchase agreement dated 16 March 2007, two wholly-owned Cypriot subsidiaries of the Group, Toucho Investments Limited ("Toucho") and Teruel Investments Limited, agreed to acquire the entire issued share capital of Tootie Holdings Limited ("Tootie"), a Cypriot company which owns the development rights relating to the Chelsea Development site through its wholly-owned Russian subsidiary, ZAO Opal ("Opal"). Prior to the date of the acquisition, Tootie had no significant operations.

A total consideration of US\$100 million is to be paid to Atropa Investments Limited ("Atropa") by way of an initial payment of US\$70 million paid on 19 March 2007 and a further payment to Opal on behalf of Atropa of US\$30 million to be made within four months of completion. Pursuant to a co-investment agreement between Opal and Atropa, Atropa shall have the right to acquire 3,000 square metres of premises in the new development, when constructed, for no further payment. The Directors of the Group believe that the majority of the development process will be funded by way of construction loans and possible pre-sales of residential units.

The Chelsea Development is planned to include three blocks (comprising a land plot of approximately 150,000 square metres) located to the east of the Tsvetnoy Boulevard, approximately two kilometres north of the Kremlin and within the Garden Ring. The area to be developed is part of a high-end residential neighbourhood. The Group's development plans are at an early stage and the Directors are considering a number of options including a primarily residential development that also comprises retail and office space in line with a number of the Group's existing developments. As yet, no planning permission or construction permits have been obtained in respect of the Chelsea Development and the Group is evaluating various options as to the extent of the development.

The development rights in respect of the Chelsea Development are currently held by Opal under an investment contract with the Moscow Government and pursuant to two resolutions passed by the Moscow Government. Under such investment contract, Opal has the exclusive right, subject to the relocation of existing residents, to renovate the properties on the site of the Chelsea Development and/or to demolish the current buildings and construct entirely new buildings in their place. The investment contract also provides that the Moscow Government shall be entitled to certain ownership rights over the Chelsea Development upon its completion.

The Directors believe that it will be possible to develop between 213,000 and 322,000 square metres on the Chelsea Development site. As a minimum, the Group plans to develop a gross area of approximately 213,000 square meters (125,000 square metres above ground and 88,000 square metres underground) through the demolition and subsequent redevelopment of currently vacant and condemned buildings. The residents of such condemned buildings are subject to mandatory relocation. However, the Directors believe that it may be possible to relocate the tenants of other buildings located on the Chelsea Development land plot on a voluntary basis. If the Company is able to relocate a greater number of tenants, as well as procure the appropriate new investment contract and the required further resolution of the Moscow Government, the maximum area available for development would be approximately 322,000 square metres.

Subject to securing the relevant planning permissions, the Directors plan to develop the Chelsea Development on a block-by-block basis with completion of the final block estimated by the end of 2011.

### Victory Park Development

On 19 March 2007, the Group's wholly-owned subsidiary, Toucho, entered into a subscription and shareholders' agreement in order to acquire 68.85% of the issued share capital of a Cypriot company, Grikima Holdings Limited ("Grikima"), for a total consideration of US\$40 million in cash. Grikima's previous sole shareholder, which will hold the remaining 31.15% of the issued share capital of Grikima following completion of the transaction and is entitled to certain minority rights in respect of Grikima, is Kensington Gore Limited, which also holds approximately 8.8% of the shares in the Company. US\$8.6 million of the consideration paid will in turn be made available as a loan for Grikima and its wholly-owned Russian subsidiary, LLC Tolling ("Tolling"), to acquire the Victory Park Development real estate asset.

Under the terms of the subscription and shareholders' agreement, following the registration of Tolling as the owner of the building currently occupying the site of the Victory Park Development, US\$8.6 million will be paid to Grikima, with the balance of US\$31.4 million due to be paid within 120 days of the date of the subscription and shareholders' agreement, subject to the registration of an amendment to the terms of the lease of the building currently located on the Victory Park Development site. If Kensington Gore Limited fails to procure the entry into new leases in respect of the Victory Park Development land plot between Tolling and the Moscow Land Department within six or seven months (depending on the relevant lease) after the initial payment of the US\$8.6 million, Toucho can require Kensington Gore Limited to purchase all its shares in Tolling for US\$40 million.

The Victory Park Development comprises of a land plot approximately 3,900 square metres of land located opposite Victory Park, on the edge of the district known as "Moscow City", a new, predominantly commercial, district approximately seven kilometres to the west of the Kremlin and to the north of Kutusovsky Prospekt, the principal westward arterial route out of Moscow. The Victory Park Development itself is located in a high-end residential area. There is currently a commercial building comprising approximately 5,000 square metres located on the Victory Park Development site. The commercial building currently generates rental income of approximately US\$1.5 million per annum although the Group expects to demolish the building as soon as practically possible and will therefore not receive significant rental income going forward.

The Directors believe that the majority of the development process will be funded by way of construction loans and possible pre-sales of residential units.

The Group intends to construct a new 18-storey building with a gross floor area of 70,000 square metres (50,000 square metres above ground and 20,000 square metres underground) on the site of the Victory Park Development. There is a large amount of office space in the immediate vicinity of the Victory Park Development. The Group is therefore reviewing the various options available to it in respect of the Victory Park Development including the development of serviced apartments, a hotel or residential real estate, potentially mixed with a certain amount of retail space. As yet, no planning permission or construction permits have been obtained in respect of the Victory Park Development.

It is expected that, following finalisation of the relevant developments plans, Tolling will apply for planning permission in relation to the Victory Park Development. Tolling also intends to apply to the City of Moscow for an investment contract in respect of the development. Subject to securing the relevant planning permissions, the Directors estimate that the Victory Park Development will be completed by the end of 2010.

The Directors have not yet finalised the accounting that will be applied to these transactions and therefore have not been able to perform an identification of all the separately identifiable assets, liabilities and contingent liabilities of either Tootie or Grikima and in particular the intangible assets providing the rights to develop the sites. As a result, it has not been practical for the Directors to calculate the amount of goodwill arising on the transactions. This is primarily due to the transactions having been finalised very recently and the Directors considering that no formal independent valuation of the projects was required prior to the completion of the share purchase agreement and the subscription and shareholders' agreement. Such valuations of the property development rights are being conducted by the Group's Industry Consultant but have not yet been finalised as at the date of this report. The valuations prepared will form part of the full purchase price allocation performed by the Directors in respect of each acquisition.

