

**AISI REALTY PUBLIC LTD**  
REPORT AND CONSOLIDATED FINANCIAL  
STATEMENTS  
31 December 2007

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2007**

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**BOARD OF DIRECTORS AND OTHER PROFESSIONAL ADVISORS**

<b>Board of Directors:</b>	Paul Robert Ensor Chairman Besik Sikharulidze Antonios Achilleoudis David Dorival Flitterman Franz M. Hoerhager Elena Maksimova
<b>Company Secretary:</b>	Totalserve Management Ltd Limassol, Cyprus
<b>Independent Auditors:</b>	Baker Tilly Klitou and Partners Ltd
<b>Legal Advisers:</b>	Lawrence Graham LLP Chrysses Demetriades & Co (Cyprus)
<b>Investment Manager:</b>	Aisi Realty Capital LLC Boston, USA
<b>Administrator:</b>	Totalserve Management Ltd Limassol, Cyprus
<b>Registered Office:</b>	Totalserve House 17 Gr. Xenopoulou Street 3106 Limassol, Cyprus
<b>Bankers:</b>	Bank of Cyprus Public Company Ltd

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited consolidated financial statements of Aisi Realty Public Ltd (the Company) and its subsidiaries (the Group) for the year ended 31 December 2007.

### **Principal activity**

The principal activity of the Group, which is unchanged from last year, is the investment in Ukraine, especially in Kiev and around the major population centers of Ukraine, with a particular focus on the capital city, Kiev.

### **Review of current position, future developments and significant risks**

The Group's development to date, financial results and position as presented in the financial statements are considered satisfactory.

The Company successfully increased its equity through two private placements in the first half of the year and through its listing on the AIM market of the London's Stock Exchange on 1 August 2007. The Current Investment Portfolio comprises of four projects following the sale of one of the Group's projects in May 2007. The Directors currently estimate that completion of the development of the existing projects will require further funding which will be financed through a combination of equity and debt capital.

Preliminary negotiations on the provision of debt financing have been held with a number of banks, including the European Bank for Reconstruction and Development, and the Directors currently anticipate that the Group will be able to obtain debt financing on acceptable terms.

In May 2007, the Group sold its 100% interest in Aisi Taurus LLC for US\$ 3 million.

In June 2007, the Group signed Preliminary Agreements to acquire 5 new projects for a total cost of US\$10 million. The advance of US\$10 million was secured by land mortgage.

In September 2007, the Group acquired an outdoor advertising company for the total cost of US\$2.1 million.

In October 2007 the Group received a building permit for its warehouse project in Brovary and a general contract was signed with Altis Holding Group stipulating the completion of the construction by mid 2008.

The Group is currently engaged in negotiations for the acquisition of additional land for further development but these negotiations are at early stages.

The Group is also reviewing other projects including a construction of a large distribution centre near Kiev.

By the end of 2007 the Group has signed several Preliminary Agreements for office and warehouse projects in Kiev, Odessa and Donetsk. It is expected that by mid 2008 these pipeline projects will be converted into full ownership and will be included in the market valuation of the existing projects.

The Group's major operations are in Ukraine where economic reforms and development of its legal, tax and regulatory frameworks, as required by market economy is continuing, however the future stability of the Ukrainian economy is largely dependent upon these reforms and developments and their effectiveness.

The most significant risks faced by the Group and the steps taken to manage these risks, are described in note 3 of the financial statements.

**REPORT OF THE BOARD OF DIRECTORS**

**Share capital (continued)**

**Results and Dividends**

The Group's results for the year are set out on page 9. The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

**Share capital**

On 2 March 2007, the issued share capital of the Company was increased by the issue of 45 million shares of CY€0,01 at US\$1,00 each.

On 30 April 2007, the nominal share capital of the Company was converted into EUR8.75 million divided into 875 million new ordinary shares of EUR0,01 each by the cancellation of the existing ordinary shares and the issuance of 7 new ordinary shares for every 4 existing ordinary shares currently held by the shareholders of the Company.

On 22 June 2007 the issued share capital of the Company was increased by the issue 10.937.500 shares of EUR0,01 each at \$0,64 per share.

On 24 July 2007 50.210.601 new Ordinary shares of EUR0,01 each were issued at US\$0,66 per share as a result of the Company being listed on the AIM market of the London Stock Exchange.

**Share Option for Directors**

On 25 July, 2007, the Company adopted a share option scheme for each of the Directors as at that date. Under the Option scheme, which was approved by the members on 31 March 2008, each director is entitled to subscribe for 263.158 ordinary shares exercisable as set out below:

	Exercise Price US\$	Amount of Shares
Exercisable from admission of the Company to AIM till 1 August 2017	0,57	175.439
Exercisable from 1st anniversary to AIM till 1 August 2017	0,83	87.719

On 12 October, 2007, the Company adopted a share option scheme for its Director Franz M. Hoerhager which entitles him to subscribe for 182.917 Ordinary shares exercisable as set out below:

	Exercise Price US\$	Amount of Shares
Exercisable immediately after the Appointment till 1 August 2017	0,40	121.929
Exercisable from 1st anniversary to AIM till 1 August 2017	0,50	60.988

If a director resigns from the Board any unvested options lapse, unless the Board resolves otherwise.

The above options were approved and adopted in every respect by the members of the Company in General Meeting on 31 March 2008.

**Founding Shareholder Warrants**

The Board of Directors approved the issue of warrants to the Founding Shareholders of the Company, entitling them to subscribe at par value per ordinary share, for such a number of ordinary shares which when multiplied by US\$0,57 equals 100% of the difference between the market value of the Company's interest in its Investment Portfolio at the date of Admission to AIM (1 August 2007) and six months following admission to AIM (1 February 2008), net of direct project cash costs plus net gain proceeds from the sale of the Tarasovskaya project.

The above warrants were approved and adopted in every respect by the members of the Company in

**REPORT OF THE BOARD OF DIRECTORS**

**Share capital (continued)**

General Meeting on 31 March 2008.

The exercise date of the warrants is within 30 days of the notification by the Board of Directors.

**Tudor BVI Global Portfolio Ltd Warrants**

The Company granted to a shareholder, Tudor BVI Global Portfolio Ltd, warrants to subscribe for 10,937,500 Ordinary shares at the exercise price of US\$0,64 per share.

The warrants can be exercised within 30 days following the first anniversary of admission to AIM (1 August 2008).

The above warrants were approved and adopted in every respect by the members of the Company in General Meeting on 31 March 2008.

**Board of Directors**

The members of the Board of Directors of the Company as at 31 December 2007 and at the date of this Report are shown on page 1. While all Directors are non-executive, two of them are principals of the Investment Manager.

Mrs Maria Elia and Mrs Panayiota Constandinou resigned on 2 July 2007 and Mr Paul Robert Ensor, Mr Antonios Achilleoudis and Mr David Flitterman were appointed in their place on the same date. On 9 March 2007 Mrs Maria Damianou resigned and Mrs Rodoula Vryoni was appointed in her place. On 2 July 2007 Mrs Rodoula Vryoni resigned. On 12 October 2007 Dr Franz M. Hoerhager was appointed to the Board of Directors.

All four Directors were reappointed at the Annual General Meeting that took place in December 2007.

Mr. Besik Sikharulidze retires by rotation and being eligible offers himself for re-election at the Annual General Meeting of the Company.

All Directors have entered into service agreements and have received options as per note 8 to the financial statements.

**Post balance sheet events**

Significant events that occurred after the end of the year are described in note 27 to the financial statements.

**REPORT OF THE BOARD OF DIRECTORS**

**Independent Auditors**

The independent auditors, Baker Tilly Klitou and Partners Ltd, who have been appointed at the December 2007 Annual General Meeting, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the next Annual General Meeting.

By order of the Board of Directors,

Paul Robert Ensor  
Director

Limassol, 24 April 2008

## **Independent Auditors' Report**

To the Members of Aisi Realty Public Ltd

### **Report on the Consolidated Financial Statements**

We have audited the consolidated financial statements of Aisi Realty Public Ltd and its subsidiaries ("the Group") on pages 9 to 38, which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company for the year 2006 were audited by another auditor whose audit report dated 12 October 2007 included an unqualified opinion.

#### *Board of Directors' Responsibility for the Financial Statements*

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113. 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of 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.

## **Independent Auditors' Report (continued)**

To the Members of Aisi Realty Public Ltd

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position the Group as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to notes 2, 3 and 26 to the financial statements which describe the following issues:

### **Valuation of investment properties**

The reported profit before tax of US\$ 4,980,887 is mainly derived from fair value increases of investment properties amounting to US\$7,700,602. The valuation of these investment properties as indicated in note 4 to the financial statements are prepared by independent Chartered Surveyors DTZ Kiev B.V. ("DTZ") based on various assumptions. However, in the event that any of those assumptions do not materialise, the valuation of DTZ Kiev should be revised accordingly. The adopted development commencement dates and construction periods in respect of each property have been made in isolation of the remaining properties also subject to development. As a result, the valuations reported do not reflect the effect of numerous properties being developed simultaneously or being released to the market at the same time. The valuations reported do not consider the associated financial risks involved in raising the appropriate funds needed to complete such a huge development plan. The majority of properties are held, by way of ground leasehold interests granted by the City Authorities. The ground rental payments of such interests may be reviewed on an annual basis, in either an upwards or downwards direction, by reference to an established formula. Within the terms of the lease, there is a right to extend the term of the lease upon expiry in line with the existing terms and conditions thereof. It should be noted, however, that very few leasehold interests have yet to reach termination and, hence the effective ability to renew on such a basis is relatively untested. In arriving at their opinion DTZ Kiev have assumed that the respective ground leases are capable of extension in accordance with the terms of each lease. DTZ Kiev have applied an approach as to discount ratio determination in relation to the risk involved in each phase of the project as well as to other valuation parameters. IAS 40 "Investment Property" defines fair value as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of investment property shall reflect market conditions at the Balance Sheet date. In some instances the Group is still in the process of obtaining rights and planning permissions to a number of properties. DTZ Kiev has valued these properties on the Special Assumption that these rights and planning permissions will be obtained after the Balance Sheet date.

## **Independent Auditors' Report (continued)**

To the Members of Aisi Realty Public Ltd

### **Contingencies**

A number of the land leases are held for relatively short term and place an obligation upon the lessee to commence development prior to expiration date of the lease agreement. In the event that a development has not commenced upon the expiry of a lease the City Authorities are entitled not to extend lease agreement on the basis that the land is not used in accordance with its designation. Furthermore, in order to extend lease agreement all necessary permissions and consents for development have to be presented to the authorities. However the management believes that the possibility of such action is remote and was made only under limited circumstances in the past. In undertaking the valuations reported herein, DTZ Kiev have made the assumption that no such circumstances will arise to permit the City to rescind the land lease or to not grant a renewal.

### **Emerging Market Risk**

The principal activities of the Group are carried out in Ukraine. As stated in the Directors' Report such markets (emerging markets) are subject to various significant risks, including but not limited to political, market, economic, and legal risks. In addition it is widely believed that in such emerging markets, the complexity of approval process exists in many levels of the processes.

### **Report on Other Legal Requirements**

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 5 is consistent with the consolidated financial statements.

### **Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap.113 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 whose knowledge this report may come to.

**Baker Tilly Klitou and Partners Ltd**

Limassol, 24 April 2008

**CONSOLIDATED INCOME STATEMENT**  
**Year ended 31 December 2007**

	Note	2007 US\$	2006 US\$
<b>Income</b>			
Fair value gains on investment property		7.700.602	14.110.087
Miscellaneous income		<u>106.320</u>	50.040
		7.806.922	14.160.127
Other income		2.984	(5.481)
<b>Expenditure</b>			
Administration expenses	5	(4.576.062)	(3.532.597)
Net finance costs	9	(158.521)	(46.046)
Net profit from investing activities	10	<u>1.905.564</u>	-
<b>Profit before tax</b>	6	<u>4.980.887</u>	10.576.003
Tax	11	<u>(2.299.572)</u>	(4.511.103)
<b>Net profit for the year</b>		<u><u>2.681.315</u></u>	<u>6.064.900</u>
Attributable to:			
Equity holders of the parent		2.555.372	3.252.010
Minority interest		<u>125.943</u>	<u>2.812.890</u>
		<u><u>2.681.315</u></u>	<u>6.064.900</u>
<b>Earnings per share attributable to equity holders of the parent (cent)</b>			
	12	<u><u>2,1</u></u>	<u>23,3</u>

The notes on pages 13 to 38 form an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**  
**31 December 2007**

	Note	2007 US\$	2006 US\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	295.376	64.418
Property under construction	14	6.722.135	-
Investment properties	15	32.830.000	25.176.948
Intangible assets	16	1.999.388	-
		<u>41.846.899</u>	<u>25.241.366</u>
<b>Current assets</b>			
Trade and other receivables	17	23.206.636	342.388
Cash at bank and in hand	18	43.708.552	373.473
		<u>66.915.188</u>	<u>715.861</u>
<b>Total assets</b>		<u>108.762.087</u>	<u>25.957.227</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity and reserves attributable to equity holders of the parent</b>			
Share capital	19	1.881.092	332.508
Share premium		92.683.930	14.288.867
Retained earnings net of minority interest		5.100.870	2.545.498
Notes payable by shareholders		-	(1.499.981)
		<u>99.665.892</u>	<u>15.666.892</u>
Minority interest		754.053	2.867.265
<b>Total equity</b>		<u>100.419.945</u>	<u>18.534.157</u>
<b>Non-current liabilities</b>			
Obligations under finance leases	20	94.455	47.540
Deferred tax liabilities	21	6.423.314	4.433.642
		<u>6.517.769</u>	<u>4.481.182</u>
<b>Current liabilities</b>			
Trade and other payables	22	1.708.039	2.854.123
Obligations under finance leases	20	23.695	10.304
Current tax liabilities	23	92.639	77.461
		<u>1.824.373</u>	<u>2.941.888</u>
<b>Total liabilities</b>		<u>8.342.142</u>	<u>7.423.070</u>
<b>Total equity and liabilities</b>		<u>108.762.087</u>	<u>25.957.227</u>

On 24 April 2008 the Board of Directors of Aisi Realty Public Ltd authorised the issue of these financial statements.

Paul Robert Ensor  
 Director

Besik Sikharulidze  
 Director

The notes on pages 13 to 38 form an integral part of these consolidated financial statements.

# AISI REALTY PUBLIC LTD

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2007

	Attributable to equity holders of the Company				Total US\$	Minority interest US\$	Total US\$
	Share capital US\$	Share premium US\$	Notes payables from shareholders US\$	Retained earnings, net of minority interest US\$			
<b>Balance - 1 January 2006</b>	<b>42.000</b>	<b>2.058.000</b>	<b>(192.280)</b>	<b>(706.512)</b>	<b>1.201.208</b>	<b>-</b>	<b>1.201.208</b>
Net profit for the year	-	-	-	3.252.010	3.252.010	2.812.890	6.064.900
Shares issued	290.508	12.634.473	-	-	12.924.981	-	12.924.981
Capital raising costs	-	(403.606)	-	-	(403.606)	-	(403.606)
Payments for shares issued in 2005	-	-	192.280	-	192.280	-	192.280
Minority interest from purchase of subsidiaries	-	-	-	-	-	54.375	54.375
Notes payable from shareholders	-	-	(1.499.980)	-	(1.499.980)	-	(1.499.980)
<b>At 31 December 2006/ 1 January 2007</b>	<b>332.508</b>	<b>14.288.867</b>	<b>(1.499.980)</b>	<b>2.545.498</b>	<b>15.666.893</b>	<b>2.867.265</b>	<b>18.534.158</b>
Net profit for the year	-	-	-	2.555.372	2.555.372	125.943	2.681.315
Shares issued	1.548.584	83.590.413	-	-	85.138.997	-	85.138.997
Capital raising costs	-	(5.195.350)	-	-	(5.195.350)	-	(5.195.350)
Minority interest from subsidiaries	-	-	-	-	-	(2.239.155)	(2.239.155)
Payments for shares issued in 2006	-	-	1.499.980	-	1,499.980	-	1,499.980
<b>At 31 December 2007</b>	<b>1.881.092</b>	<b>92.683.930</b>	<b>-</b>	<b>5.100.870</b>	<b>99.665.892</b>	<b>754.053</b>	<b>100.419.945</b>

The notes on pages 13 to 38 form an integral part of these consolidated financial statements.

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2007**

	Note	2007 US\$	2006 US\$
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>4.980.887</b>	10.576.003
Adjustments for:			
Depreciation of property, plant and equipment	13	<b>85.526</b>	14.316
(Increase)/decrease in advances for investments		<b>(10.000.000)</b>	1.244.000
(Increase)/decrease in accounts receivable		<b>(19.714)</b>	-
(Increase)/decrease to advances to related parties		<b>120.000</b>	(120.000)
(Increase)/decrease in prepayments and other current assets		<b>(9.868.062)</b>	(184.188)
Advances under investment contracts		<b>(3.096.473)</b>	-
Increase in intangible assets		<b>(1.999.388)</b>	-
Increase/(decrease) in trade and other payables	22	<b>(1.283.906)</b>	2.102.080
Increase/(decrease) in amounts due to related parties	24.2	<b>137.822</b>	608.824
Increase in taxes payable		<b>15.177</b>	-
Purchase and development of property		<b>47.551</b>	(11.066.862)
Gain on revaluation of investment property		<b>(7.700.602)</b>	(14.110.087)
Purchase of property plant and equipment		<b>(256.181)</b>	(20.888)
Increase in deferred tax liability		<b>(309.900)</b>	-
Increase in minority shareholders' liability		<b>(2.239.152)</b>	54.375
Increase in properties under construction		<b>(6.722.135)</b>	-
<b>Net cash used in operating activities</b>		<b><u>(38.108.549)</u></b>	<b><u>(10.902.427)</u></b>
		<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of share capital		<b><u>81.443.629</u></b>	<b><u>11.213.674</u></b>
<b>Net cash from financing activities</b>		<b><u>81.443.629</u></b>	<b><u>11.213.674</u></b>
<b>Net increase in cash and cash equivalents</b>		<b>43.335.079</b>	311.247
Cash and cash equivalents:			
At beginning of the year	18	<b><u>373.473</u></b>	<b><u>62.228</u></b>
<b>At end of the year</b>	18	<b><u><u>43.708.552</u></u></b>	<b><u><u>373.473</u></u></b>

The notes on pages 13 to 38 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**1. Incorporation and principal activities**

**Country of incorporation**

The Company was incorporated in Cyprus on 23 June 2005 as a private company with limited liability under the Companies Law, Cap. 113. On 19 March 2006 it was converted into a Public Limited Liability Company, by filing a statement in lieu of prospectus. On 1 August 2007 the Company placed 50.2 million shares which were admitted to trading on the London Stock Exchange (AIM). Its registered office is at Totalserve House, 17 Gr. Xenopoulou Street, 3106 Limassol, Cyprus.

**Principal activity**

The principal activity of the Group, which is unchanged from last year, is the investment in Ukraine, especially in Kiev and around the major population centers of Ukraine, with a particular focus on the capital city, Kiev.

**2. Accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements unless otherwise stated.

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113. The financial statements are presented in United States Dollars (US\$). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties to fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**2. Accounting policies (continued)**

**Adoption of new and revised IFRSs**

During the current year the Group adopted all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB, which are relevant to its operations and are effective for accounting periods commencing on 1 January 2007.

The adoption of these new and revised Standards and Interpretations did not have a material effect on the financial statements.

At the date of authorisation of these financial statements some Standards were in issue but not yet effective. The Board of Directors expects that the adoption of these Standards in future periods will not have a material effect on the financial statements of the Company.

**Standards and Interpretations effective in the current period**

• IFRS 7	Financial Instruments: Disclosures	Effective for annual periods beginning on or after 1 January 2007
• IAS 1	Presentation of Financial Statements added disclosures about an entity's capital	Effective for annual periods beginning on or after 1 January 2007
• IFRIC 8	Scope of IFRS 2	Effective for annual periods beginning on or after 1 May 2006
• IFRIC 10	Interim Financial Reporting and impairment	Effective for annual periods beginning on or after 1 November 2006

**Early adoption of Standards and Interpretations**

IAS 23 (Revised)	Borrowing costs	Effective for annual periods beginning on or after 1 January 2009
IFRS 8	Operating Segments	Effective for annual periods beginning on or after 1 January 2009

**Basis of consolidation**

The Group consolidated financial statements comprise the financial statements of the parent company Aisi Realty Public Ltd and the financial statements of the following subsidiaries:

Name	Country of incorporation	Holding %
Aisi Capital Limited	Cyprus	100
LLC Aisi Ukraine	Ukraine	100
LLC Aisi Brovary	Ukraine	100
LLC Almaz-pres-Ukrayina	Ukraine	51
LLC Aisi Bela	Ukraine	100
LLC Aisi Outdoor	Ukraine	100
LLC Aisi Vida	Ukraine	100

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**2. Accounting policies (continued)**

LLC Aisi Val	Ukraine	100
LLC Aisi Ilvo	Ukraine	100
LLC Aisi Consta	Ukraine	100
LLC Aisi Roslav	Ukraine	100
LLC Aisi Donetsk	Ukraine	100
LLC Trade Center	Ukraine	100
LLC Terminal Brovary	Ukraine	100
LLC Krius	Ukraine	100
LLC Ukr-Contract	Ukraine	100

The financial statements of all the Group companies are prepared using uniform accounting policies. All inter-company transactions and balances between Group companies have been eliminated during consolidation.

All entities of the Group, except from Aisi Realty Public Limited and Aisi Capital Ltd maintain their accounting records in Ukrainian Hryvnia. Aisi Realty Public Limited and Aisi Capital Ltd maintain their accounting records in US Dollars.

The Group's management has decided to present this consolidated financial information in US Dollars for the following reasons:

- Owing to the nature of the Group's business, most of management's economic and operational decisions are based on US Dollars;
- The management believes that the US Dollar reporting will better reflect the economic substance of the underlying events and circumstances relevant to the Group.

Ukrainian statutory accounting principles and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated financial information, which has been prepared from the Ukrainian statutory accounting records for the entities of the Group domiciled in Ukraine, reflects adjustments necessary for such consolidated financial information to be presented in accordance with IFRSs.

As management records the consolidated financial information of the entities domiciled in Ukraine in Hryvnia, in translating financial information of the entities domiciled in Ukraine into US Dollars for incorporation in the consolidated financial information, the Group follows a translation policy in

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**2. Accounting policies (continued)**

accordance with International Accounting Standard No. 21, “The Effects of Changes in Foreign Exchange Rates”, and the following procedures are performed:

- All assets and liabilities are translated at closing rate;
- Income and expense items are translated using exchange rates at the dates of the transactions.

The relevant exchange rates of the Central Bank of Ukraine used in translating the financial information of the entities domiciled in Ukraine into US Dollars were US Dollar 1= UAH 5.05 as at December 31, 2007 US Dollar 1 = UAH 5.05 as at December 31, 2006.

The Group’s financial statements consolidate the financial statements of the Group and all its subsidiaries’ undertakings for the year ended 31 December 2007.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial information of subsidiaries is included in the consolidated financial information from the date that control effectively commences until the date that control effectively ceases. In the Group's financial information, investments in subsidiaries are accounted for under the acquisition method.

Where necessary, adjustments are made to the consolidated financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

**Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**Finance costs**

Interest expense and other borrowing costs are charged to the income statement as incurred.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****2. Accounting policies (continued)****Foreign currency translation**(1) Functional and presentation currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in United States Dollars (US\$), which is the Group's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**Tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

All the subsidiaries of the Group, except Aisi Capital Limited are incorporated in Ukraine and the parent of the Group is incorporated in Cyprus. The Group's management and control is exercised in Cyprus. There is no withholding tax or special defence contribution on the dividend income to be received from the Ukrainian subsidiaries as provided for by the current tax treaty.

In the event that future developments are disposed of it is the Group's intention to dispose of shares in subsidiaries rather than assets. The corporate income tax exposure on disposal of development companies in Ukraine is mitigated by the fact that the sale would represent a disposal of the securities by a non-resident shareholder and therefore would be exempt from tax. In accordance with IFRS the Group has recognised the deferred tax liability that would arise in the event that the Group disposed of assets rather than shares in subsidiaries.

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**2. Accounting policies (continued)**

**Property, plant and equipment (continued)**

Depreciation is calculated on the straight-line method so as to write off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

	%
Leasehold	33,33
Citylights	20,00
Motor vehicles	33,33
Furniture, fixtures and office equipment	20,00
Software and hardware	50,00

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the income statement of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in the income statement.

**Segmental analysis**

The Group has only one reportable segment on the basis that all of its revenue is expected to be generated from investment properties located in Ukraine; accordingly no segment analysis is presented.

**Other property expenses**

Irrecoverable running costs directly attributable to specific properties within the Group's portfolio are charged to the income statement as other property expenses. Costs incurred in the improvement of the portfolio which, in the opinion of the directors, are not of a capital nature are written off to the income statement as incurred.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****2. Accounting policies (continued)****Investment properties**

Investment property, principally comprising freehold and leasehold land and investment properties held for future development, is held for long-term rental yields or capital appreciation or both and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Changes in fair values are recorded in the income statement.

Land held under operating lease is classified and accounted for as investment property when the rest of definition is met. The operating lease is classified and accounted for as if it were a finance lease. Initially investment property under development is measured at cost, including related transaction costs. After initial recognition, investment property under development is carried out at a cost plus any development costs. Investment property under development is accounted for under IAS 16 during the period of development. Any revaluation during the period of development is taken to revaluation reserve in the balance sheet.

The property is classified in accordance to the intention of the management for its future use. Intention to use is determined by the Board of Directors after reviewing market conditions, profitability of the projects, ability to finance the project and obtaining required construction permits.

The time point, when the intention of the management is finalized is the date of start of construction. At the moment of start of construction freehold land, leasehold land and investment properties held for a future redevelopment are reclassified into investment property under development (IAS 16) or inventory (IAS 2) in accordance to intention to use.

***Initial measurement and recognition***

Investment property is measured initially at cost, including related transaction costs. Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, on the commencement of an operating lease to third party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete. At that time, it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the income statement.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****2. Accounting policies (continued)*****Subsequent measurement***

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement in the period in which they arise.

When the Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated income statement.

Subsequent expenditure is charged to the assets' carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

***Basis of valuation***

The fair values reflect market conditions at the balance sheet date. These valuations are reviewed periodically by DTZ Kiev B.V., chartered surveyors.

The valuations have been carried out by DTZ Kiev B.V. (hereafter "appraisers") on the basis of Market Value in accordance with the appropriate sections of the current Practice Statements contained within the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Standards, 5th Edition (the "Red Book"). This is an internationally accepted basis of valuation.

***Assumptions and Sources of Information***

The valuation of the Property was prepared on the basis of a number of "Special Assumptions". In this respect, a Special Assumption is referred to in the Red Book as an Assumption that either:

Requires the valuation to be based on facts that differ materially from those that exists at the date of valuation; or

Is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances

With regard to this Valuation Report, the appraisers are of the opinion that the Special Assumptions set out below are valid, realistic and relevant.

Adopted development commencement dates and construction periods in respect of each property have been made in isolation of the remaining properties also subject to development. As a result, the valuations reported do not reflect the effect of numerous properties being developed simultaneously or being released to the market at the same time.

An assumption that was made details all matters likely to affect value within their collective knowledge such as prospective lettings, outstanding requirements under legislation and planning decisions have been

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****2. Accounting policies (continued)**

made available and that the information is up to date.

In those instances where full ownership rights for the existing improvements are held but the granting of a ground lease is awaited we have assumed that there will be no unforeseeable additional costs or delays in comparison to those generally experienced and that such rights are in due course obtained.

In those instances where investment contracts are held for the developments of properties, the valuations are on the basis that a ground lease and an ownership certificate will be obtained by the developer upon completion of the development and this is in line with normal market price in Ukraine.

The majority of properties are held by way of ground leasehold interests granted by the City Authorities. The ground rental payments of such interests may be reviewed on an annual basis, in either an upwards or downwards direction, by reference to an established formula. Within the terms of the lease, there is a right to extend the term of the lease upon expiry in line with the existing terms and conditions thereof. It should be noted, however, that very few leasehold interests have yet to reach termination and, hence, the effective ability to renew on such a basis is relatively untested. In arriving at opinions of Market Value, the appraisers assumed that the respective ground leases are capable of extension in accordance with the terms of each lease. In addition, given that such interests are not capable of assignment, it was assumed that each leasehold interest is held by way of a special purpose vehicle ("SPV"), and that the shares in the respective SPVs are capable of assignment.

With regard to each of the properties considered, in those instances where project documentation has been agreed with the respective local authorities, opinions of the appraisers of value have been arrived at on the basis of these agreed agreements.

In those instances where the properties are held in part ownership, the valuations assume that these interests are capable of sale in the open market without any restriction from the co-owner and that there are no encumbrances within the share agreements which would impact upon the saleability of the properties concerned.

The valuation is exclusive of VAT and no allowances have been made for any expenses of realisation or for taxation which might arise in the event of a disposal of any property. The valuation is, however, net of purchaser's acquisition costs.

In terms of the Assumptions and Special Assumptions, it was confirmed that Assumptions are correct as far as they are aware. In the event that any of the Assumptions prove to be incorrect, the valuations contained in this valuation report should be reviewed and modified as necessary.

**Intangible assets**

Intangible assets, comprising of advertising rights are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****2. Accounting policies (continued)****Leased assets**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount payable to the lessor.

**Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand.

**Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****2. Accounting policies (continued)****Earnings and Net Assets Value per share**

The Group presents basic and diluted earnings per share (EPS) and net assets and adjusted net asset value per share (NAV) for its ordinary shares. Basic EPS and NAV amounts are calculated by dividing net profit for the year, and net assets value as of year end, attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing net profit for the year, as of year end, attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the potentially dilutive ordinary shares into ordinary shares. Adjusted NAV is calculated by dividing the net assets value of the year end after certain adjustment as per note 12 by the weighted average number of ordinary shares outstanding during the year.

**Share capital**

Ordinary shares are classified as equity.

**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**Non-current liabilities**

Non-current liabilities represent amounts that are due more than twelve months from the balance sheet date.

**3. Financial risk management****Financial risk factors**

The Group is exposed to liquidity risk, currency risk, operational risk, compliance risk, litigation risk, reputation risk, share ownership risk, capital risk management and other risks arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below:

**(1.1) Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****3. Financial risk management (continued)****(1.2) Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Ukrainian Hryvnia. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

**(1.3) Operational risk**

Operational risk is the risk that derives from the deficiencies relating to the Group's information technology and control systems as well as the risk of human error and natural disasters. The Group's systems are evaluated, maintained and upgraded continuously.

**(1.4) Compliance risk**

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Group.

**(1.5) Litigation risk**

Litigation risk is the risk of financial loss, interruption of the Group's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Group to execute its operations.

**(1.6) Reputation risk**

The risk of loss of reputation arising from the negative publicity relating to The Group's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against The Group. The Group applies procedures to minimize this risk.

**(1.7) Share ownership risk**

The risk of share ownership arises from the investment in shares/participation of The Group and is a combination of credit, price and operational risk as well as the risk of compliance and loss of reputation. The Group applies procedures of analysis, measurement and evaluation of this risk in order to minimize it.

**(1.8) Capital risk management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from last year.

**(1.9) Other risks**

The principal activities of the Group are carried out in Ukraine. As stated in the Directors' Report such markets (emerging markets) are subject to various significant risks, including but not limited to political, market, economic, and legal risks. In addition it is widely believed that in such emerging markets, the complexity of approval process exists in many levels of the processes.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007****3. Financial risk management (continued)****(2) Fair value estimation**

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the balance sheet date.

**4. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **Income taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

- **Fair value of investment property**

The fair value of investment property is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The fair value of the investment property has been estimated based on the fair value of their individual assets.

- **Impairment of intangible asset**

Intangible assets are initially recorded at acquisition cost and are amortized on a straight line basis over their useful economic life. Intangible assets that are acquired through a business combination are initially recorded at fair value at the date of acquisition. Intangible assets with indefinite useful life are reviewed for impairment at least once per year. The impairment test is performed using the discounted cash flows expected to be generated through the use of the intangible assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Group estimates the recoverable amount of the cash generating unit in which the asset belongs to.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**5. Administration expenses**

	2007	2006
	US\$	US\$
Directors remuneration	139.841	-
Wages & Administrator	300.424	90.313
Lease expenses	204.792	99.152
VAT, taxes & duties	66.922	17.307
Management fee	1.751.944	198.007
Public group expenses	191.247	-
Transaction costs	96.645	138.735
Office expenses	349.844	125.677
Bad debts expenses	-	134.007
Accounting fees	380.111	311.389
Legal fees	159.743	314.413
Travelling expenses	505.168	497.344
Marketing fees	2.938	30.973
Consulting fees	495.848	-
Litigation	(230.000)	1.510.000
Other expenses	75.069	50.964
Depreciation	85.526	14.316
	<u>4.576.062</u>	<u>3.532.597</u>

**6. Profit before tax**

	2007	2006
	US\$	US\$
Profit before tax is stated after charging the following items:		
Depreciation of property, plant and equipment (Note 13)	85.526	14.316
Staff costs including directors in their executive capacity	<u>440.265</u>	<u>90.313</u>

**7. Stock based compensation for directors**

**Share Option for Directors**

On 25 July, 2007, the Company adopted a share option scheme for each of the Directors as at that date. Under the Option scheme, which was approved by the members on 31 March 2008, each director is entitled to subscribe for 263.158 Ordinary shares exercisable as set out below:

	Exercise Price	Amount of
	US\$	Shares
Exercisable from admission of the Company to AIM till 1 August 2017	0,57	175.439
Exercisable from 1st anniversary to AIM till 1 August 2017	0,83	87.719

On 12 October, 2007, the Company adopted a share option scheme for its Director Franz M. Hoerhager which entitles him to subscribe for 182.917 Ordinary shares exercisable as set out below:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

	Exercise Price	Amount of
	US\$	Shares
Exercisable immediately after the Appointment till 1 August 2017	0,40	121.929
Exercisable from 1st anniversary to AIM till 1 August 2017	0,50	60.988

If a director resigns from the Board any unvested options lapse, unless the Directors resolve otherwise.

The above options were approved, verified and adopted in every respect by the members of the Company in General Meeting on 31 March 2008.

**8. Shareholder Warrants**

**Founding Shareholder Warrants**

The Board of Directors approved the issue of warrants to the Founding Shareholders of the Company, entitling them to subscribe at par value per ordinary share, for such a number of ordinary shares which when multiplied by US\$0.57 equals 100% of the difference between the market value of the Company's interest in its Investment Portfolio at the date of Admission to AIM (1 August 2007) and six months following admission to AIM (1 February 2008), net of direct project cash costs, and net gain proceeds from the sale of Tarasovskaya project.

The Board of Directors have approved the valuation of the Investment Portfolio of February 2008 of the Company at 31 March 2008.

The exercise date of the warrants is within 30 days of the Board approval and announcement of the number of warrants to be issued.

**Tudor BVI Global Portfolio Ltd Warrants**

The Company granted to a shareholder, Tudor BVI Global Portfolio Ltd, warrants to subscribe for 10.937.500 Ordinary shares at the exercise price of US\$0.64 per share.

The exercise day is within 30 days following the first anniversary of admission to AIM (1 August 2008).

The above warrants were approved, verified and adopted in every respect by the members of the Company in General Meeting on 31 March 2008.

**9. Finance costs**

	2007	2006
	US\$	US\$
Net foreign exchange transaction losses	158.521	12.404
Interest payable	-	33.642
	158.521	46.046

**10. Profit from investing activities**

	2007	2006
	US\$	US\$
Profit from sale of investments in subsidiaries	1.210.492	-
Interest income	695.072	-
	1.905.564	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

The profit from sale of investment in subsidiary arose from the sale of LLC Aisi Taurus.

**11. Tax**

	<b>2007</b>	2006
	<b>US\$</b>	US\$
Corporation tax - current year	<b>233.544</b>	77.462
Defence contribution - current year	<b>76.356</b>	-
Deferred tax - charge (Note 21)	<b>1.989.672</b>	4.433.641
Charge for the year	<b><u>2.299.572</u></b>	<u>4.511.103</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	<b>2007</b>	2006
	<b>US\$</b>	US\$
Profit before tax	<b><u>4.980.887</u></b>	<u>10.576.003</u>
Tax calculated at the applicable tax rates	<b>1.245.222</b>	2.644.000
Deferred tax asset not recognised	<b>127.006</b>	883.522
Defence contribution current year	<b>76.356</b>	-
Other movements in deferred tax	<b>850.988</b>	983.581
Tax charge	<b><u>2.299.572</u></b>	<u>4.511.103</u>

**12. Earnings and net assets per share attributable to equity holders of the parent**

**Weighted average number of ordinary shares**

*Weighted average number of ordinary shares*

	<i>2007</i>	<i>2006</i>
	<i>Number</i>	<i>Number</i>
Issued ordinary shares capital at 1 January	26,293,717	3,675,000
Ordinary shares	<u>139,898,112</u>	<u>22,618,717</u>
Issued Ordinary shares capital at 31 December	<u>166,191,829</u>	<u>26,293,717</u>
Weighted average number of ordinary shares	<u>119,813,838</u>	<u>13,925,805</u>
Diluted weighted average number of ordinary shares	<u>119,813,838</u>	<u>13,925,805</u>

The per-share computations below retroactively reflect the changes in number of shares occurred as a result of conversions in March 2006 and April 2007 for all periods presented.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

<i>Basic, diluted and adjusted earnings per share</i>	<i>2007 Profit after tax US\$</i>	<i>2007 Earnings per share US\$</i>	<i>2006 Profit after tax US\$</i>	<i>2006 Earnings per share US\$</i>
Basic	2,555,372	0.02	3,252,009	0.23
Diluted	2,555,372	0.02	3,252,009	0.23
Market value of investment property under construction	9,427,865	0.08	-	-
Deferred tax on revaluation of investment properties	6,423,313	0.05	4,433,641	0.32
Ligation accrual	-	-	1,510,000	0.11
Minority interest, net	600,165	0.00	700,000	0.05
Adjusted	19,006,715	0.16	9,895,650	0.71

The deferred tax adjustment above has been made on the basis that the Group would dispose of shares in subsidiary companies, rather than assets, and would not expect to crystallise a tax charge on disposal.

**Net assets per share**

<i>Net assets per share</i>	<i>2007 Net assets</i>	<i>2007 Number of shares</i>	<i>2007 Net assets per share</i>	<i>2006 Net assets</i>	<i>2006 Number of shares</i>	<i>2006 Net assets per share</i>
Basic	99,665,892	166,191,829	0.60	15,666,891	26,293,717	0.60
Diluted	99,665,892	166,191,829	0.60	15,666,891	26,293,717	0.60
Deferred tax on revaluation of investment properties	6,423,313	166,191,829	0.04	4,433,641	26,293,717	0.17
Market value of investment property under construction	9,427,865	166,191,829	0.06		26,293,717	-
Litigation accrual				1,510,000	26,293,717	0.06
Minority interest						

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	600,165	166,191,829	0.00	700,000	26,293,717	0.03
Adjusted	116,117,235	166,191,829	0.70	22,310,532	26,293,717	0.85

**13. Property, plant and equipment**

	Leasehold	Citylights	Motor vehicles	Furniture, fixtures and equipment	Software and hardware	Total
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Cost</b>						
Additions	-	-	66.265	12.275	-	78.540
<b>At 31 December 2006/ 1 January 2007</b>	-	-	<b>66.265</b>	<b>12.275</b>	-	<b>78.540</b>
Additions	42.017	99.542	77.178	58.130	39.618	316.485
<b>At 31 December 2007</b>	<b>42.017</b>	<b>99.542</b>	<b>143.443</b>	<b>70.405</b>	<b>39.618</b>	<b>395.025</b>
<b>Depreciation</b>						
Charge for the year	-	-	11.053	3.069	-	14.122
<b>At 31 December 2006/ 1 January 2007</b>	-	-	<b>11.053</b>	<b>3.069</b>	-	<b>14.122</b>
Charge for the year	7.003	29.863	23.501	15.255	9.905	85.527
<b>At 31 December 2007</b>	<b>7.003</b>	<b>29.863</b>	<b>34.554</b>	<b>18.324</b>	<b>9.905</b>	<b>99.649</b>
<b>Net book amount</b>						
<b>At 31 December 2007</b>	<b>35.014</b>	<b>69.679</b>	<b>108.889</b>	<b>52.081</b>	<b>29.713</b>	<b>295.376</b>
<b>At 31 December 2006</b>	<b>-</b>	<b>-</b>	<b>55.212</b>	<b>9.206</b>	<b>-</b>	<b>64.418</b>

**14. Property under construction**

	2007 US\$	2006 US\$
At 1 January	-	-
Transfer from investment properties	6.124.000	-
Construction costs	598.135	-
<b>At 31 December</b>	<b>6.722.135</b>	<b>-</b>

**15. Investment properties**

	2007 US\$	2006 US\$
At 1 January	25.176.948	-
Additions	6.000.001	10.481.808
Disposals	(2.413.334)	-
Transfer to property under construction	(6.124.000)	-
Investment property related costs	2.489.783	585.053
Revaluation gain on investment property	7.700.602	14.110.087
<b>At 31 December</b>	<b>32.830.000</b>	<b>25.176.948</b>

On acquisitions dates and as at December 31, 2007, the property was valued by DTZ Kiev B.V ("DTZ"), an external valuer. All valuations were carried out by appropriately qualified valuers. The valuer's

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opinion of the Market Value of each property has been primarily derived using comparable recent market transactions on an arm's length basis and an estimate of the future potential net income generated by use of the properties because their specialised nature means that there is no market based evidence available.

Project related prepayments include advances for contractors and consultants on works preceding development of properties.

In May 2007 the Group sold its interest in Tarasovskaya project. In October 2007 the Group obtained building permit for one of its projects which was reclassified from Investment Property to in Property under development according to IAS 40.

**16. Intangible assets**

	<b>Advertising rights US\$</b>	<b>Total US\$</b>
<b>Cost</b>		
Additions	1,999,388	1,999,388
<b>Net book amount At 31 December 2007</b>	<b><u>1,999,388</u></b>	<b><u>1,999,388</u></b>

**17. Trade and other receivables**

	<b>2007 US\$</b>	<b>2006 US\$</b>
Trade receivables	<b>19,714</b>	-
Advances for investments	<b>13,096,473</b>	-
Receivables from related companies	-	120,000
Deposits and prepayments	<b>205,406</b>	87,286
VAT and other taxes receivable	<b>604,832</b>	135,102
Contractors advances	<b><u>9,280,211</u></b>	-
	<b><u>23,206,636</u></b>	<u>342,388</u>

In October 2007, the Group entered into a Preliminary agreement with the intention to subsequently enter on a Definitive Agreement for the purchase of all the equity of an English property holding Group. A condition precedent for concluding the above Agreement is the receipt of a satisfactory due diligence report on compliance on UK and Ukrainian legislation. As part of this transaction the Group has signed an Escrow Agreement and deposited US\$1 million with the Bank of Cyprus who is acting as a Custodian in this transaction.

VAT is levied at a 20% rate on Ukrainian domestic sales and imports of goods, works and services. A VAT credit is the amount that a taxpayer is entitled to offset against its VAT liability in the reporting period. Rights to VAT credit arise on the earlier of the date of payment to the supplier or from the date when good are received.

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**18. Cash and cash equivalents**

For the purposes of the cash flow statement, the cash and cash equivalents include the following:

	<b>2007</b>	2006
	<b>US\$</b>	US\$
Cash at bank and in hand	<u><b>43.708.552</b></u>	<u>373.473</u>
	<u><b>43.708.552</b></u>	<u>373.473</u>

**19. Share capital**

	<b>2007</b>	<b>2007</b>	<b>2007</b>	2006	2006	2006
	<b>Number of</b>	<b>Share</b>	<b>Share</b>	Number of	Share Capital	Share
	<b>shares</b>	<b>Capital</b>	<b>Premium</b>	shares	US\$	Premium
		<b>US\$</b>	<b>US\$</b>			<b>US\$</b>
<b>Authorised</b>						
Ordinary shares of CY€0.01 each converted into EUR0.01 each	<u><b>875.000.000</b></u>	<u>-</u>	<u>-</u>	<u>500.000.000</u>	<u>-</u>	<u>-</u>
<b>Issued and fully paid</b>						
At 1 January	<b>15.024.981</b>	<b>332.508</b>	<b>14.288.867</b>	21.000	42.000	2.058.000
Issue of shares	<b>94.879.365</b>	<b>1.548.584</b>	<b>78.395.063</b>	12.924.981	290.508	12.230.867
Conversion of shares	<u><b>56.287.483</b></u>	<u>-</u>	<u>-</u>	<u>2.079.000</u>	<u>-</u>	<u>-</u>
At 31 December	<u><b>166.191.829</b></u>	<u><b>1.881.092</b></u>	<u><b>92.683.930</b></u>	<u>15.024.981</u>	<u>332.508</u>	<u>14.288.867</u>

During the year the following increases in the issued share capital of the Company took place:

	<b>Number of shares</b>	<b>Issued Price</b>
		<b>US\$</b>
2 March 2007	45.000.000	1,00
Conversion into Euro (Note 14.1)	-	-
22 June 2007	10.937.500	0,64
24 July 2007	50.210.601	0,66

**19.1 Conversion into Euro**

On 30 April 2007, the nominal share capital of the Company was converted into EUR8.75 million divided into 875 million new ordinary shares of EUR0.01 each by the cancellation of the existing ordinary shares and the issuance of 7 new ordinary shares for every 4 ordinary shares held at the above date by the shareholders of the Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended 31 December 2007**

**20. Obligations under finance leases**

	<b>Minimum lease payments</b>			<b>Minimum lease payments</b>		
	<b>Interest</b>	<b>Principal</b>		<b>Interest</b>	<b>Principal</b>	
	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>	
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	
Less than one year	<b>42.936</b>	<b>19.241</b>	<b>23.695</b>	8.878	2.932	5.946
Between two and five years	<b>103.893</b>	<b>9.438</b>	<b>94.455</b>	48.966	7.372	41.594
	<b><u>146.829</u></b>	<b><u>28.679</u></b>	<b><u>118.150</u></b>	<u>57.844</u>	<u>10.304</u>	<u>47.540</u>

All lease obligations are denominated in United States Dollars.

The fair values of lease obligations approximate to their carrying amounts as presented above.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

**21. Deferred tax**

Deferred tax is calculated in full on all temporary differences under the liability method using the applicable tax rates (Note 11). The applicable corporation tax rate in the case of tax losses is 10%.

The movement on the deferred taxation account is as follows:

**Deferred tax liability**

	<b>Fair value gains on investment property</b>	<b>Total</b>
	<b>US\$</b>	<b>US\$</b>
Balance - 1 January 2006	-	-
Charged / (credited) to:		
Income statement (Note 11)	<u>4.433.642</u>	<u>4.433.642</u>
<b>At 31 December 2006/ 1 January 2007</b>	<b><u>4.433.642</u></b>	<b><u>4.433.642</u></b>
Charged / (credited) to:		
Income statement (Note 11)	<u>1.989.672</u>	<u>1.989.672</u>
<b>At 31 December 2007</b>	<b><u>6.423.314</u></b>	<b><u>6.423.314</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. Trade and other payables**

	2007	2006
	US\$	US\$
Capital raising fees due	-	338.748
VAT and other taxes payable	167.775	-
Audit and accounting fees due	252.840	105.000
Accruals	240.571	151.001
Other creditors	300.208	140.550
Litigation accrual	-	1.510.000
Payables to related companies (Note 24)	<u>746.645</u>	<u>608.824</u>
	<u><b>1.708.039</b></u>	<u><b>2.854.123</b></u>

The fair values of trade and other payables due within one year approximate to their carrying amounts as presented above.

**23. Current tax liabilities**

	2007	2006
	US\$	US\$
Special contribution for defence	<u>92.639</u>	<u>77.461</u>
	<u><b>92.639</b></u>	<u><b>77.461</b></u>

**24. Related party transactions**

The following transactions were carried out with related parties:

**24.1 Management fees**

	2007	2006
	US\$	US\$
Aisi Capital LLC	<u>1.751.944</u>	<u>186.100</u>
	<u><b>1.751.944</b></u>	<u><b>186.100</b></u>

**24.2 Payables to related parties (Note 22)**

		2007	2006
<u>Name</u>	<u>Nature of transactions</u>	US\$	US\$
Aisi Capital LLC	Trade	233.400	427.927
Former shareholders of the acquired companies		513.245	116.745
Services outsourced to administrator		-	50.141
Others		-	14.011
		<u><b>746.645</b></u>	<u><b>608.824</b></u>

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**25. Contingencies**

The Group is a party to a litigation matter related to complaints filed by the Group's former employee. As at 31 December 2007 there were several litigation cases which indirectly involve Aisi Realty Public Limited as a shareholder of Aisi Taurus LLC and Aisi Ukraine LLC. Since the outcome of this litigation and the range of any possible loss cannot be estimated, no accrual has been in the Group's financial statements. Management does not believe the results of legal proceedings will have a material effect on the Group's financial position or results of operations.

Under certain conditions, as defined in the respective purchase and sale agreement, the Group has a put option that would allow the Group to sell its interest back to seller at the price higher than the original purchase price. The fair value of this option is not considered to be material.

The Group has an obligation to purchase the remaining minority interests in the event that certain conditions, as defined in the relevant sale and purchase agreement, arise. The directors have considered the likelihood of these conditions arising and consider them to be remote.

A number of the land leases are held for relatively short term and place an obligation upon the lessee to commence development prior to expiration date of the lease agreement. In the event that a development has not commenced upon the expiry of a lease the City Authorities are entitled not to extend lease agreement on the basis that the land is not used in accordance with its designation. Furthermore, in order to extend lease agreement all necessary permissions and consents for development have to be presented to the authorities. However the management believes that the possibility of such action is remote and was made only under limited circumstances in the past. In undertaking the valuations reported herein, DTZ Kiev have made the assumption that no such circumstances will arise to permit the City to rescind the land lease or to not grant a renewal.

**26. Commitments**

**Operating lease commitments**

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>2007</b>	2006
	<b>US\$</b>	US\$
Within one year	<b>310.968</b>	144.116
Between one and five years	<b>441.185</b>	592.878
After five years	<b>42.945</b>	57.260
	<b><u>795.098</u></b>	<u>794.254</u>

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**27. Post balance sheet events**

In December 2007 the Company entered into 2 preliminary agreements for the acquisition of 80% of the charter capital of two Ukrainian Companies, for the total consideration of US\$4.8 million and US\$3.12 million respectively. Subject to conditions precedent the Company expects to complete those acquisitions by mid 2008.

In accordance with the Annual General Meeting held on 3 March 2008, the directors express their plans to increase the Share Capital of the Company in the near future.

**Independent Auditors' Report pages 6 and 8**