AISI REALTY PUBLIC LTD

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

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BOARD OF DIRECTORS AND OTHER PROFESSIONAL ADVISORS

Board of Directors

Paul Robert Ensor, Chairman
Besik Sikharulidze
Antonios Achilleoudis
Franz Hoerhager
Roland Peeters

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Company Secretary

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Nominated Adviser

Seymour Pierce Limited
20 Old Bailey
London EC4M 7EN
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Broker

Seymour Pierce Limited
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Legal Advisers

Baker & McKenzie - CIS, Limited
Renaissance Business Center
24 Vorovskoho Street
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Ukraine

Patrikios Pavlou & Co. (Cyprus)
Patrician Chambers
332 Agiou Andreou Str.
3725 Limassol
Cyprus

Directors, Secretary and Advisors (Continued)

Auditors

Baker Tilly Klitou and Partners Limited
11 Bouboulinas Street
1060 Nicosia
Cyprus

Registrars

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P.O. Box 2579
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Bankers

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Cyprus

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report and audited consolidated financial statements of Aisi Realty Public Limited (the Company) and its subsidiaries (the Group) for the year ended 31 December 2010.

Principal activity

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

Review of current position, future development and significant risks

Whilst we have only one bank debt and numerous uncharged assets, the Group's financial position as presented in the consolidated financial statements is not considered satisfactory by the Directors, and they have been working on a number of strategic opportunities to secure adequate working capital and make the Group's operations profitable.

In May of 2011 the Group signed a restructuring agreement with EBRD for the repayment of the outstanding principal amount of US$15.5m to be deferred until September 2012. This is the only bank debt of the Group. Whilst the restructuring of the EBRD facility is the first step in securing the ongoing financial position of the Group, given the small contracted rental income to date, the available working capital of the Group continues to be very tight. On 20 June 2011 the Group was not able to meet the interest payment due, and plans to remedy the situation once discussed funding is concluded.

On 1 June 2011 the Company made a further announcement that it had requested that trading in the Existing Ordinary Shares on AIM be suspended until such time that it had secured all necessary funding to enable to it to carry on as a going concern.

The discussions with an independent third party investor group, namely South East Continent Unique Real Estate (SECURE) Management ("Secure Management"), have now been concluded and the Board is pleased to announce that the Company has entered into a Subscription Agreement with Narrowpeak Consultants Limited (the "Investor"), a member of the Secure Management group, conditional on, inter alia, the Proposed Investment Resolutions (as set out in the Notice of First EGM) being passed by the shareholders at the First EGM and completion of due diligence to the satisfaction of the Investor, following which the Investor proposes to make a substantial investment in the Company on certain terms.

The Board is also convening the Second EGM to put forward the Capital Reorganisation Resolutions for shareholder approval. The Capital Reorganisation Resolutions will enable the Company to restructure its share capital from Existing Ordinary Shares to New Ordinary Shares. The requisite notice period under the Act for the Capital Reorganisation Resolutions is longer than the Proposed Investment Resolutions. Accordingly, the Company is proposing the Capital Reorganisation Resolutions at the Second EGM rather than the First EGM so that the Proposed Investment Resolutions are put to the shareholders without delay.

The Brovary Warehouse is currently 21% leased and we are pleased to report that we are continuing negotiations (some being at an advanced stage) with a number of international logistics operators, and expect a positive conclusion in the near future such as full coverage of leasable area, which should provide improved visibility on the ongoing cash generation of the property.

The Board of Directors has discussed and agreed on the potential structure of the management internalization which will be proposed to the shareholders at a General Meeting in the coming few weeks.

Considering the current market conditions, the Board of Directors has decided to focus the strategy of the Group away from speculative development to investing in income generating assets. The focus will now be on warehouses and big box retail, with well established international tenants with long term leases. We have built a strong pipeline of potential new investments. All other non-core assets will be used to generate additional equity for implementing a new strategic focus.

Results and Dividends

The Group's results for the year are set out on page 12.

Share Capital

In December 2010 the Company registered the additional ordinary shares issued. More detailed information is set out in Note 9 to the financial statements.

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 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.

The Company recognized respective equity reserve for share options in the statement of financial position as at 31 December 2010 in the amount of US$ 68,390.

Board of Directors

The members of the Company's Board of Directors as at 31 December 2010 and at the date of this report are presented on the page 3. All Directors are non executive except for Mr. Besik Sikharulidze who is a member of the Board of Aisi Realty Capital, the Investment Manager for the Group. On 1 July 2011 Mr. Roland Peeters was appointed to the Board of Directors.

In accordance with the Company’s Articles of Association Mr. Besik Sikharulidze retires by rotation at the Annual General Meeting and being eligible offers himself for re-election. Mr. Roland Peeters who was appointed as director on 1 July 2011 resigns at the Annual General Meeting and being eligible offers himself for re-election.

All Directors have entered into service agreements and have received options as per Note 10 of the financial statements.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the end of the reporting period

Significant events that occurred after the end of the reporting period are described in Note 29 of the financial statements.

Independent Auditors

The independent auditors, Baker Tilly Klitou and Partners Limited, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors

Paul Robert Ensor Chairman

Limassol 8 August 2011

ΣΕΛΚ
ICPAC
Quality Checked

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Independent Auditors' Report
To the Members of Aisi Realty Public Limited
Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Aisi Realty Public Limited (the "Company") and its subsidiaries (the "Group") on pages 15 to 66, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view 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. Except as discussed in the Basis for Qualified Opinion paragraphs, 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 consolidated financial statements.

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The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 consolidated financial statements.

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

Basis for Qualified Opinion

As at 31 December 2010 the Group was in breach of certain covenants relating to the loan from EBRD of US$15.529.412, presented in non-current liabilities. In addition the Group failed to make the interest payment on the loan which was due in June 2011. As a result of the above the liability is repayable on demand. International Accounting Standard IAS1- "Presentation of Financial Statements" requires that liabilities payable on demand be presented as part of current liabilities. Had the Group presented the above liability as current, non-current liabilities would have decreased by US$15.529.412 and current liabilities would have increased by the same amount as at 31 December 2010.

Included in trade and other receivables is an amount of US$6.658.620 (including accrued interest) which is secured by mortgage agreement on land plots. The recoverability of this balance remains doubtful despite the efforts of the Group to enforce the mortgage against the collateral in recent years. We have not been provided with adequate information in order to form an opinion about the recoverability of this balance.
We were not provided with independent confirmations of the trade and other payables of US$4.142.217 and we were unable to satisfy ourselves by alternative means concerning the completeness of trade and other payables. As a result we are not in a position to form an opinion about the completeness of the above balance at 31 December 2010.

Qualified Opinion

In our opinion, except for the effect of the matter referred to in the basis for Qualified Opinion paragraph, and except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the recoverability of the receivable of US$6.658.620 and the completeness of trade and other payables US$4.142.217, the consolidated financial statements give a true and fair view of the financial position of the parent company Aisi Realty Public Limited and its subsidiaries as of 31 December 2010, and of its financial performance and 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, Cap113.

Emphasis of Matter

Without qualifying our opinion in this respect, we draw your attention to notes 2, 13, 14, 26 and 27 of the consolidated financial statements, which describe the following issues:

Going concern

We have considered the adequacy of the disclosure in note 2 to the consolidated financial statements concerning the group's ability to continue as a going concern. The group incurred a loss before tax of US$25.240.657 during the year ended 31 December 2010. Even though at 31 December 2010 the Group's total assets exceed its total liabilities by US$25.991.377 the validity of the going concern basis is dependent on the Group's ability to obtain the necessary funding in order to complete the development of the properties so as to generate income. The actions taken by management to obtain the necessary funding are ongoing and have not yet been finalized. The future viability of the Group depends on the outcome of these actions. Furthermore, as stated in the Basis for Qualified Opinion paragraph above, the Group has failed to make the interest payment in June 2011 and is in breach of certain covenants relating to the loan from EBRD of US$15.529.412. Without obtaining the additional funding to meet its current obligations as and when they fall due, the Company and the Group will not be able to continue as a going concern in the foreseeable future.

The Company has signed an agreement with an independent third party, namely South East Continental Unique Real Estate (SECURE) Management, under which the Company has entered into a subscription agreement with Narrowpeak Consultants Limited (the Investor), a member of the Secure Management group, for a substantial investment in the Company on certain terms.

Under the agreement, the Investor has conditionally agreed to subscribe for Bonds issued by the Company with aggregate value of US$8 million which shall be convertible, in certain circumstances, into 513.500.000 ordinary shares, and will be issued with class B warrants to subscribe for up to 109.100.000 ordinary shares.

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The bonds and the class B warrants will be subscribed for and issued to the Investor in two tranches. The principal term of the bonds will be eight months and the annual interest during this eight month period will be 1% per annum. On the date eight calendar months following the issue of the first tranch of bonds (the Maturity Date), if the Adjusted Monetisable Liabilities are equal to or less than US$6.4 million, the bonds will automatically be converted into 513.500.000 ordinary shares. If on Maturity Date the Adjusted Monetisable Liabilities are greater than US$6.4 million, the bonds will be converted into 513.500.000 ordinary shares at the sole discretion of the Investor. In such circumstances, from the Maturity Date until such conversion the bonds will bear interest at 10% per annum. Where the bonds have not been converted into ordinary shares by 31 December 2013, the right of the Investor to convert them will lapse. Notwithstanding the above, the bonds will be able to be converted into ordinary shares at the Investor's discretion at any time between the date of the bond instrument and 31 December 2013. At 31 December 2010 the total of the Adjusted Monetisable Liabilities was US$6.787.134.

These conditions, along with other matters explained in note 2 to the group financial statements indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. In particular, to a large extent, the Group's ability to continue as a going concern, depends on the conversion of the bonds by the Investor by the Maturity Date. The directors have prepared these consolidated financial statements on the going concern basis. If the adoption of the going concern basis was inappropriate, adjustments, which it is not practicable to quantify, would be required, including those to write down assets to their recoverable amount, to reclassify non current assets and liabilities as current assets and liabilities and to provide for any further liabilities that may arise.

Valuation of investment properties

The valuation of the investment properties as indicated in notes 2, 13 and 14 to the consolidated financial statements are prepared by independent Chartered Surveyors, DTZ Kiev B.V. (DTZ) based on various assumptions and limiting conditions. However, in the event that any of these assumptions do not materialize or the limiting conditions are realized then the valuations of DTZ should be revised accordingly. The most critical assumptions used for the valuations are as follows:

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.

A number 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 by Ukrainian authorities 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 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 have assumed that the respective ground leases are capable of extension in accordance with the terms of each lease. Also in arriving at their valuation, DTZ 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 last day of the reporting period.

In some instances the Group is still in the process of obtaining rights and planning permissions to a number of properties. DTZ have valued these properties on the Special Assumption that these rights and planning permissions will be obtained after the last day of the reporting period.

The most critical limiting conditions of the valuations are as follows:

The method used for the calculation of the value of properties under construction development is based upon the development potential and has a somewhat restricted nature due to the fact that the development projects have to be successfully implemented. While DTZ analyzed the basic elements of the projects, they were not instructed to provide feasibility study of the proposed projects. The value determined through this method is a market one only in case of full and timely implementation of the projects.

The appraisal of investment property as at 31 December 2010 was performed by DTZ and was completed in March 2011. The fair values of the investment property reflect market conditions at the last day of reporting period. These property appraisals are performed using “Red Book” standards, and are also based on conservative and realistic assumptions agreed by appraisers and management. The valuation reflects market conditions as 31 December 2010. Since that time, market conditions may have changed with resulting changes in the valuation of the investment properties.

Contingencies

As stated in Note 25, a number of the land leases are held for relatively short terms and place an obligation upon the lessee to complete development by a prescribed date. It is important to note that the rights to complete a development may be lost or at least delayed if the lessee fails to complete a permitted development within the timescale set out by the ground lease.

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In addition, in the event that a development has not commenced upon the expiry of a lease then the City Authorities are entitled to decline the granting of a new lease on the basis that the land is not used in accordance with the designation. Furthermore, where all necessary permissions and consents for the development are not in place, this may provide the City Authorities with grounds for rescinding or non-renewal of the ground lease. However the management believes that the possibility of such action is remote and was made only under limited circumstances in the past.

Management believes that rescinding or non-renewal of the ground lease is remote if a project is on the final stage of development or on the operating cycle. In undertaking the valuations reported herein, DTZ have made the assumption that no such circumstances will arise to permit the City Authorities to rescind the land lease or not to grant a renewal.

We were not able to confirm payment of the share capital of Trade Center LLC (holder of leashold rights to land plot of 0,2445 ha attributable to Kiyanivsky project). This may result in initiation of liquidation procedures by the State Authorities and consequently lead to deprival of leashold rights to the land plot. DTZ has not taken this into account when arriving at the market value. The market value of Kiyanivsky project is at the highest end of the reasonable range. In addition, we would like to outline that the market value was calculated under the condition that the land plot size is 0,5445 ha. In case if LLC Torgoviy center, the entity which holds land lease title lease is liquidated, the land plot size will be reduced to 0,3 ha.

The Group has not paid land taxes for subsidiaries for the period from September to December 2010. Although the unpaid amount and amount of possible tax penalties are immaterial, this may provide the City Authorities with grounds for cancellation of the ground leases.

Country risk

The principal activities of the Group are carried out in Ukraine. As stated in note 1 of the financial statements 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. The Government and the City Councils have started adopting crucial measures to fight this system inefficiency, however these are at their preliminary stages.

Commitments

As stated in the Note 26, the Group has entered into construction agreements with the constructors of investment property that was recognised as investment property under construction as at 31 December 2010. These agreements resulted in capital commitments amounting to US$47.106.062 as at 31 December 2010.

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Report on Other Legal Requirements

Pursuant to the requirements of the Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit, except that the scope of our work was limited by the matters discussed in the Basis for Qualified Opinion paragraphs.
- 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, except as explained in the Basis for Qualified Opinion paragraphs.
- In our opinion, the information given in the report of the Board of Directors on pages 5 to 7 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 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts 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.

Christodoulos Loulloupis
Certified Public Accountant and Registered Auditor
for and on behalf of

Baker Tilly Klitou and Partners Limited
Certified Public Accountants and Registered Auditors
Nicosia, 8 August 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Note	2010 US$	2009 US$
Revenue from operations			
Fair value losses on investment property	13,14	(19 965 122)	(17 470 085)
Other income, net		25 292	(523)
		(19 939 830)	**(17 470 608)**
Expenses			
Administration expenses	5	(5 978 087)	(5 946 723)
Finance income/(costs), net	6	115 527	(4 872 270)
Other income/(expenses), net	7	561 733	(10 882 650)
Loss before tax		**(25 240 657)**	**(39 172 251)**
Tax	8	-	(10)
Net loss for the year		**(25 240 657)**	**(39 172 261)**
Other comprehensive income			
Translation to presentation currency		22 430	973 378
Total comprehensive income for the year		**(25 218 227)**	**(38 198 883)**
Loss attributable to:			
Equity holders of the parent		(24 934 873)	(38 901 144)
Non controlling interest		(305 784)	(271 117)
		(25 240 657)	**(39 172 261)**
Loss and total comprehensive income attributable to:			
Equity holders of the parent		(24 933 034)	(37 879 359)
Non controlling interest		(285 193)	(319 524)
		(25 218 227))	**(38 198 883)**
Losses per share attributable to equity holders of the parent (cent)	11	(6)	(14)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2010

	Note	2010 US$	2009 US$
ASSETS			
Non current assets			
Property, plant and equipment	12	54 783	72 764
Investment property under construction	13	10 300 000	35 319 000
Investment property	14	33 631 000	22 873 000
Advances for investments	16	6 000 000	9 297 945
VAT non-current	21	2 926 939	3 213 709
		52 912 722	**70 776 418**
Current assets			
Accounts receivable	17	3 487 598	1 776 063
Cash and cash equivalents	18	291 053	5 020 657
		3 778 651	**6 796 720**
Total assets		**56 691 373**	**77 573 138**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2010

EQUITY AND LIABILITIES

	Note	2010 US$	2009 US$
Equity and reserves attributable to owners of the parent			
Share capital	9	5 431 918	5 431 918
Share premium	9	94 523 283	94 523 283
Accumulated losses		(74 217 972)	(49 283 099)
Advances from shareholders		223 118	-
Other reserves	10	68 390	68 390
Translation reserve		(1 068 153)	(1 069 992)
		24 960 584	**49 670 500**
Non-controlling interest		1 030 793	1 315 986
Total equity		**25 991 377**	**50 986 486**
Non current liabilities			
Long – term borrowings	19	15 529 412	15 529 412
Obligations under finance leases	20	591 245	589 249
Accounts payable	22	673 078	766 365
		16 793 735	**16 885 026**
Current liabilities			
Short – term borrowings	19	41 237	508 555
Accounts payable	22	13 234 905	8 534 465
Obligations under finance leases	20	44 969	73 675
Current tax liabilities	23	510 240	510 240
Provision for litigation claims	25	74 910	74 691
		13 906 261	**9 701 626**
Total liabilities		**30 699 996**	**26 586 652**
Total equity and liabilities		**56 691 373**	**77 573 138**

On 8 August 2011 the Board of Directors of Aisi Realty Public Limited authorised these financial statements for

Paul Ensor

....
Paul Robert Ensor
Director

....
Besik Sikharulidze
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

	Share capital	Share premium	Accumulated loss	Other reserves (Note 10)	Advances for issue of shares	Translation reserve	Total	Non-controlling interest	Total
	US$	US$	US$	US$	US$	US$	US$	US$	US$
Balance as at 1 January 2009	**2 283 299**	**92 683 930**	**(10 381 955)**	**46 710**	**-**	**(2 091 777)**	**82 540 207**	**1 635 510**	**84 175 717**
Total comprehensive income for the year	-	-	(38 901 144)	-	-	-	**(38 901 144)**	(271 117)	**(39 172 261)**
Increase of share capital	3 148 619	1 839 353	-	-	-	-	**4 987972**	-	**4 987972**
Translation to presentation currency	-	-	-	-	-	1 021 785	**1 021785**	(48 407)	**973 378**
Directors' options	-	-	-	21 680	-	-	**21 680**	-	**21 680**
Balance as at 31 December 2009 / 1 January 2010	**5 431 918**	**94 523 283**	**(49 283 099)**	**68 390**	**-**	**(1 069 992)**	**49 670 500**	**1 315 986**	**50 986 486**
Total comprehensive income for the year	-	-	(24 934 873)	-	-	-	**(24 934 873)**	(305 784)	**(25 240 657)**
Advances from shareholders	-	-	-	-	223 118	-	**223 118**	-	**223 118**
Translation to presentation currency	-	-	-	-	-	1 839	**1 839**	20 591	**22 430**
Balance as at 31 December 2010	**5 431 918**	**94 523 283**	**(74 217 972)**	**68 390**	**223 118**	**(1 068 153)**	**24 960 584**	**1 030 793**	**25 991 377**

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Note	2010 US$	2009 US$
Operating activities			
Profit/(loss) before tax		**(25 240 657)**	**(39 172 251)**
Adjustments for:			
Depreciation of property, plant and equipment	12	81 183	60 881
Advances for investments impairment (reversal) / loss	7	(780 267)	6 128 205
Foreign exchange losses/(gain)	6	(263 388)	2 301 804
Loss on revaluation of investment property	13,14	19 965 122	17 470 085
Loss/(gain) from discounting VAT	6	(1 050 843)	2 398 890
Other non-cash changes in investment property	13,14	(3 541 458)	
Receivables impairment loss	7	111 899	1 253 167
Property, plant and equipment impairment loss	7	-	95 772
Other expenses		-	141 218
Interest income	6	(84 694)	(15 553)
Interest expense	6	1 150 869	7 209
Operating loss before working capital changes		**(9 652 234)**	**(9 330 573)**
Increase in advances to related parties	19	(4)	(1 252)
(Increase)/Decrease in prepayments and other current assets	17	(1 311 786)	(314 523)
Increase in trade and other payables	22	1 110 659	2 515 095
Increase in payables due to related parties	24	3 652 706	2 752 894
Cash flows used in operating activities		**(6 200 659)**	**(4 378 359)**
Investing activities			
Decrease in prepayments under development contracts		-	2 511 292
Decrease/(Increase) in advances for investments	17	4 640 494	68 244
(Decrease)/Increase in payables to constructors	22	(156 212)	(196 767)
Additions to investment property	13,14	(1 946 719)	(13 106 851)
Changes of property, plant and equipment	12	(2 498)	(20 883)
Increase in VAT receivable		(871 735)	(2 055 671)
Increase/(Decrease) in financial lease liabilities		(26 710)	576 941
Interest received	6	84 694	15 553
Cash flows used in investing activities		**1 721 314**	**(12 208 142)**
Financing activities			
Proceeds from shareholders advances / proceed from issue of share capital	9	223 118	4 987 972
Proceeds from bank loan	19	(470 588)	16 000 000
Proceeds from other borrowings	19	12	4 321
Net cash (used in) / from financing activities		**(247 458)**	**20 992 293**
Effect of foreign exchange rates on cash and cash equivalents		(2 801)	579 132
Net (decrease) / increase in cash and cash equivalents		**(4 729 604)**	**4 984 924**
Cash and cash equivalents:			
At beginning of the year	18	5 020 657	35 733
At end of the year	**18**	**291 053**	**5 020 657**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

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 consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the “Group”).

The principal activity of the Group, which is unchanged from last year, is the investment in real estate, especially in Kiev and around the major population centres of Ukraine.

As at 31 December 2010 the Group employed 19 people (31 December 2009:29).

Ukrainian business environment

Country Risks

In recent years, the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, significant capital outflow, and low wages for a large portion of the Ukrainian population.

The implementation of reforms has been partially impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

Although Ukraine has made significant gains in increasing its gross domestic product, decreasing inflation, stabilising its currency, increasing real wages and improving its trade balance, these reforms may not be sustainable over the longer term and may be reversed unless Ukraine undertakes certain important structural reforms in the near future while continuing to exercise monetary policies that have contributed to reduced inflation levels.

Ukraine's internal debt market remains illiquid and underdeveloped as compared to markets in most western countries.

Unless the international capital markets or syndicated loan markets are available to Ukraine, the Government will have to continue to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings may be conditioned on Ukraine's satisfaction of certain requirements, which may include, among other things, implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas.

If Ukraine is unable to resort to the international capital markets or syndicated loan markets after the international crisis or due to adverse domestic developments, a failure by official creditors and of multilateral organisations such as the IMF, the European Bank for Reconstruction and Development, the World Bank and the EU to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

1. Incorporation and principal activities (continued)

and have a material adverse effect on the Ukrainian economy as a whole, and thus, on the Group's business, results of operations, financial condition and prospects.

Any major adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine and/or Ukraine's revenues derived from transit charges for Russian oil and gas, would likely have negative effects on certain sectors of the Ukrainian economy and thus on our business, results of operations, financial condition and prospects.

The Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form. Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments, place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities.

Tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Company and its business generally.

Emerging economies such as Ukraine's are subject to rapid change and the information set out in these financial statements may become outdated relatively quickly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

1. Incorporation and principal activities (continued)

Real estate risks

General considerations relating to property investment

Several factors may affect the economic performance and value of the Group's properties, including:

- risks associated with construction activity at the properties, including delays, the imposition of liens and defects in workmanship;
- the ability to collect rent from tenants, on a timely basis or at all;
- the amount of rent and the terms on which lease renewals and new leases are agreed being less favourable than current leases;
- cyclical fluctuations in the property market generally and changes in the national, regional and local economic and political climate;
- local conditions such as an oversupply of similar properties or a reduction in demand for the properties;
- the attractiveness of the property to tenants or residential purchasers;
- decreases in capital valuations of property;
- changes in availability and costs of financing, which may affect the sale or refinancing of properties;
- covenants, conditions, restrictions and easements relating to the properties;
- changes in governmental legislation and regulations, including but not limited to designated use, allocation, environmental usage, taxation and insurance;
- the risk of bad or unmarketable title due to failure to register or perfect our interests or the existence of prior claims, encumbrances or charges of which we may be unaware at the time of purchase;
- the possibility of occupants in the properties, whether squatters or those with legitimate claims to possession;
- our ability to pay for adequate maintenance, insurance and other operating costs, including taxes, which could increase over time; and
- terrorism and acts of nature, such as earthquakes and floods that may damage the properties.

The occurrence of any of the above risks may adversely affect the Group’s results of operations, financial condition and prospects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

1. Incorporation and principal activities (continued)

Construction, development and investment risks

The Group is subject to the general risks associated with construction and development projects. Development and construction activities may involve the following risks:

- the Group may be unable to proceed with the development of properties because it may not be able to obtain financing upon favourable terms or at all;
- the Group may incur construction costs for a development project which exceed the original estimates due to increased material, labour or other costs, which could make completion of the project uneconomical because the Group may not be able to increase prices to compensate for the increase in construction costs;
- the Group may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy and other governmental permits and authorisations, which could result in increased costs and could require to abandon the activities entirely with respect to a project;
- the Group faces challenges by the Ukrainian authorities in connection with re-zoning or designated use allocation it has obtained or may obtain in the future for land previously categorised as agricultural land;
- the Group may be unable to complete construction and leasing of a property on schedule, resulting in increased debt service expense, construction or renovation costs and potential fines, and/or termination of existing investment agreements, resulting in claims by third parties for damages, or termination of the respective land leases;
- the Group's plans to demolish existing structures for redevelopment on certain properties could expose us to significant costs and liabilities and loss of rights to the underlying land on which such buildings were constructed;
- the Group may lease developed properties at below anticipated rental rates; and
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, which may result in the Group's investments not being profitable.

Any negative change in one or more of the factors listed above may adversely affect the Group's results of operations, financial condition and prospects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant 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 consolidated 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 property and investment property under construction 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.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the repayment of liabilities in the normal course of business. The recoverability of Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The Group incurred a loss before tax of US$ 25,240,657 during the year ended 31 December 2010. Even though at 31 December 2010, the Group's total assets exceed its total liabilities by US$ 25,991,377 the validity of the going concern basis is dependent on the Group's ability to obtain the necessary funding through new issue of shares or bank facilities in order to complete the development and commissioning of properties so as to generate income. The consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

As at 31 December 2010 the Group failed to make the interest payment in June 2011 and was in breach of certain covenants relating to the bank loan presented in non-current liabilities. As a result of these breaches, the liability is repayable on demand. International Accounting Standard "IAS1- Presentation of Financial Statements", requires that liabilities payable on demand be presented as part of current liabilities. Had the Group presented the above liability as current, non-current liabilities would have decreased by US$15,529,412 and current liabilities would have increased by the same amount as at 31 December 2010. Should the bank request immediate repayment of the loan, this would cast significant uncertainty on the ability of the Group to continue as a going concern.

The Company has signed an agreement with an independent third party, namely South East Continental Unique Real Estate (SECURE) Management, under which the Company has entered into a subscription agreement with Narrowpeak Consultants Limited (the Investor), a member of the Secure Management group, for a substantial investment in the Company on certain terms.

Under the agreement, the Investor has conditionally agreed to subscribe for Bonds issued by the Company with aggregate value of US$8 million which shall be convertible, in certain circumstances, into 513.500.000 ordinary shares, and will be issued with class B warrants to subscribe for up to 109.100.000 ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

The bonds and the class B warrants will be subscribed for and issued to the Investor in two tranches. The principal term of the bonds will be eight months and the annual interest during this eight month period will be 1% per annum. On the date eight calendar months following the issue of the first tranch of bonds (the Maturity Date), if the Adjusted Monetisable Liabilities are equal to or less than US$6.4 million, the bonds will automatically be converted into 513.500.000 ordinary shares. If on Maturity Date the Adjusted Monetisable Liabilities are greater than US$6.4 million, the bonds will be converted into 513.500.000 ordinary shares at the sole discretion of the Investor. In such circumstances, from the Maturity Date until such conversion the bonds will bear interest at 10% per annum. Where the bonds have not been converted into ordinary shares by 31 December 2013, the right of the Investor to convert them will lapse. Notwithstanding the above, the bonds will be able to be converted into ordinary shares at the Investor's discretion at any time between the date of the bond instrument and 31 December 2013. At 31 December 2010 the total of the Adjusted Monetisable Liabilities was US$6.787.134. Management is confident that these will be reduced further through negotiations with the relevant parties.

To a great extent, the Group's ability to continue as a going concern, depends on the conversion of the bonds by the Investor by the Maturity Date.

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 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

Standards, Amendments and Interpretations effective in the current period, but not relevant

IFRS 2 *Share-based Payment*	Scope of IFRS 2 and revised IFRS 3 • Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2.	Effective for periods beginning on or after 1 July 2009.
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Disclosures • Clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5.	Effective prospectively for annual periods beginning on or after 1 January 2010
IFRS 8 *Operating Segments*	Disclosure of information about segment assets • Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.	Effective for annual periods beginning on or after 1 January 2010.
IAS 1 *Presentation of Financial Statements*	Current/non-current classification of convertible instruments • The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.	Effective for annual periods beginning on or after 1 January 2010.
IAS 7 *Statement of Cash Flows*	Classification of expenditures on unrecognised assets • Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	Effective for annual periods beginning on or after 1 January 2010.
IAS 17 *Leases*	Classification of land and buildings • The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.	Effective for annual periods beginning on or after 1 January 2010.
IAS 18 *Revenue*	Determining whether an entity is acting as a principal or as an agent	Effective in December 2009 year-ends.
IAS 36 *Impairment of Assets*	Unit of accounting for goodwill impairment testing • The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes. See Section 2.	Effective prospectively for annual periods beginning on or after 1 January 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

IAS 38 *Intangible Assets*	Consequential amendments arising from IFRS 3 • If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives. Measuring fair value • The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.	The amendments are effective for annual periods beginning on or after 1 July 2009.
IAS 39 *Financial Instruments: Recognition and Measurement*	Assessment of loan prepayment penalties as embedded derivatives • A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. Scope exemption for business combination contract • The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken. Cash flow hedge accounting • Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.	Effective prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010.
IFRIC 9 *Reassessment of Embedded Derivatives*	Scope of IFRIC 9 and IFRS 3 • IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation or a joint venture.	The amendment is effective prospectively for annual periods beginning on or after 1 July 2009.
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Amendment of the restriction on the entity that can hold hedging instruments • Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met. See Section 1 for further details.	The amendment is effective for annual periods beginning on or after 1 July 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

IFRS 3 *Business Combinations*	Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS • The amendment clarifies that the amendments to IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applied retrospectively. Measurement of non-controlling interests (NCI) • The amendment limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either: • At fair value or • At the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2. The amendment is applied prospectively from the date the entity applies IFRS 3 (revised) Un-replaced and voluntarily replaced share-based payment awards • The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested — they are part of NCI and measured at their market-based measure; if unvested — they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense. The amendment is applied prospectively.	• The amendment is applicable to annual periods beginning on or after 1 July 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

IAS 27 *Consolidated and Separate Financial Statements*	Transition requirements for amendments made as a result of IAS 27 *Consolidated and Separate Financial Statements* • The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 *The Effect of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applied retrospectively.	The amendment is applicable to annual periods beginning on or after 1 July 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

Standards, Amendments and Interpretations that are not yet effective and have not been early adopted by the Company

IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Accounting policy changes in the year of Adoption • The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting*, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS. The amendment is applied prospectively. Revaluation basis as deemed cost • The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such remeasurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity). Entities that adopted IFRS in previous periods are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective. Use of deemed cost for operations subject to rate regulation • The amendment expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16 *Property, Plant and Equipment*, IAS 23 *Borrowing Costs* and IAS 38 *Intangible Assets*. The amendment is applied prospectively.	Effective for annual periods beginning on or after 1 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

IFRS 7 *Financial Instruments Disclosures*	Clarification of disclosures • The amendment emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments • Amendments to quantitative and credit risk disclosures are, as follows: • Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk • Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk) • Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired • Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired • Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date • The amendment is applied retrospectively.	Effective for annual periods beginning on or after 1 January 2011.
IAS 1 *Presentation of Financial Statements*	Clarification of statement of changes in equity • The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. • The amendment is applied retrospectively.	Effective for annual periods beginning on or after 1 January 2011.
IAS 34 *Interim Financial Reporting*	Significant events and transactions • The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: • The circumstances likely to affect fair values of financial instruments and their classification • Transfers of financial instruments between different levels of the fair value hierarchy • Changes in classification of financial assets • Changes in contingent liabilities and assets • The amendment is applied retrospectively	Effective for annual periods beginning on or after 1 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

IFRIC 13 *Customer Loyalty Programmes*	Fair value of award credit • The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account • The amendment is applied retrospectively	Effective for annual periods beginning on or after 1 January 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

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 %	
		as at 31.12.2009	as at 31.12.2010
Aisi Capital Limited	Cyprus	100	100
Aisi Logistics Limited	Cyprus	100	100
LLC Aisi Ukraine	Ukraine	100	100
LLC Aisi Brovary	Ukraine	100	100
LLC Almaz-pres-Ukrayina	Ukraine	55	55
LLC Aisi Bela	Ukraine	100	100
LLC Aisi Outdoor	Ukraine	100	100
LLC Aisi Vida	Ukraine	100	100
LLC Aisi Val	Ukraine	100	100
LLC Aisi Ilvo	Ukraine	100	100
LLC Aisi Consta	Ukraine	100	100
LLC Aisi Roslav	Ukraine	100	100
LLC Aisi Donetsk	Ukraine	100	100
LLC Trade Center	Ukraine	100	100
LLC Terminal Brovary	Ukraine	100	100
LLC Krius	Ukraine	100	100
LLC Ukr-Contract	Ukraine	100	100
LLC Retail Development Balabino	Ukraine	100	100
LLC Mirelium Investments	Ukraine	-	100
LLC Interterminal	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, Aisi Capital Ltd and Aisi Logistics Ltd maintain their accounting records in Ukrainian Hryvnia. Aisi Realty Public Limited, Aisi Capital Ltd and Aisi Logistics Ltd maintain their accounting records in 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. Based on that the Group's management has determined that the functional currency is the US Dollar.

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 IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

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 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, or where this is not practicable the average rate has been used;
- All resulting exchange differences are recognised as a separate component of equity.
- When a foreign operation is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of that entity, the exchange differences deferred in equity are reclassified to the consolidated statement of comprehensive income as part of the gain or loss on sale.

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 are as follows:

	Average		31 December	
Currency	**2010**	**2009**	**2010**	**2009**
US$	7,9353	7,7916	7,9617	7,9850

The Group's financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 December 2010.

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. 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 in line with those used by the Group.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

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 the statement of comprehensive income.

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

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, net result from transactions with securities, foreign exchange gains and losses, and bank charges and commission.

Foreign currency translation

Functional and presentation currency

Items included in the Group's financial statements are measured applying the currency of the primary economic environment in which the entities operate ("the functional currency"). The national currency of Ukraine, the Ukrainian Hryvnia, is the functional currency for all the Group's entities, except for the parent company and its subsidiaries Aisi Capital Ltd and Aisi Logistics Ltd for which the United States Dollar is the functional currency. The financial statements are presented in United States Dollars (US$).

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 statement of comprehensive income as part of finance costs.

Income from investing activities

Income from investing activities includes profit received from disposal of investments in the Company's subsidiaries and associates, income accrued on advances for investments outstanding as at the year end, and bank interest.

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 statement of financial position date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

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 are incorporated in Ukraine, except for Aisi Capital Limited, Aisi Logistics Limited and the parent company, which are 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.

The Group's management does not intend to dispose of any project. However, in the event that a decision is taken in the future to dispose of any project 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. The Group is therefore in a position to control the reversal of any temporary differences and as such, no deferred tax liability has been provided for in the financial statements.

Property, plant and equipment

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

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	20.00
Citylights	20.00
Motor vehicles	25.00
Furniture, fixtures and office equipment	20.00
Software and hardware	33.33

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 statement of financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies

Expenditure for repairs and maintenance of property, plant and equipment is charged to the statement of comprehensive income 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 statement of comprehensive income.

Operating segments analysis

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

Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each financial position date, the Group revises its estimates on the number of options that are expected to vest based on the non-marketing vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Other property expenses

Irrecoverable running costs directly attributable to specific properties within the Group's portfolio are charged to the statement of comprehensive income as other administration 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 statement of comprehensive income as incurred.

Investment property

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 statement of comprehensive income.
Land held under operating lease is classified and accounted for as investment property when the rest of the definition is met. The operating lease is accounted for as if it were a finance lease.

Investment property under development or construction initially is measured at cost, including related transaction costs.

Up to 31 December 2007 investment property under development was carried at cost plus any development costs after initial recognition and was stated as Property under construction in the financial statements. IAS 16 requirements were applied to the Investment property under development during the period of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

development. As such, no fair value gains were recognised in the statement of comprehensive income of 2007 on these properties.

The Group has decided to take advantage of the permission allowed in IAS 40 "Investment Property" to apply the amendments to investment property under construction in the financial statements of 2008.

Therefore, the fair value gains on investment property appearing in the income statement of 2008 include fair value gains on investment properties under construction valued at fair value for the first time in 2008.

The property is classified in accordance with 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 or inventory in accordance to the final decision of management.

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 statement of comprehensive income 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, or the commencement of an operating lease to third party. 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 investment property under construction until construction or development is complete. At that time, it is reclassified and subsequently accounted for as investment property.

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 statement of comprehensive income in the period in which they arise.

If a valuation obtained for an investment property held under a lease is net of all payments expected to be made, any related liabilities/assets recognised separately in the statement of financial position are added back/reduced to arrive at the carrying value of the investment property for accounting purposes.

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 statement of comprehensive income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

during the financial period in which they are incurred.

Basis of valuation

The fair values reflect market conditions at the financial position date. These valuations are reviewed periodically by DTZ Kiev B.V. (hereafter "appraisers"), chartered surveyors.

The valuations have been carried out by the 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.

In arriving at opinions of Market Value, the appraisers have also arrived at opinions of current estimated net annual rent. These are assessed on the assumption that they are the best rent at which a new letting of an interest in property would have been completed at the date of valuation assuming:

- a willing landlord;
- that prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the letting;
- that the state of the market, levels of value and other circumstances were, on any earlier assumed date of entering into an agreement for lease, the same as on the valuation date;
- that no account is taken of any additional bid by a prospective tenant with a special interest;
- that where relevant the length of term and principal conditions assumed to apply to the letting and other tenants terms are the same as those set out in the rent review clause contained in the occupational lease which we confirm are not exceptionally onerous or beneficial for letting of the type and class of the subject property and;
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

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 exist 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

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 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 practice in Ukraine.

A number 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.

Valuation Model

Valuers constructed a Discounted Cash Flow (DCF) model. DCF analysis is a financial modelling technique based on explicit assumptions regarding the prospective income and expenses of a property or business. The analysis is a forecast of receipts and disbursements during the period concerned. In the same manner as in an investment analysis, the present value of expected future cash flows is estimated using the discount rate. The forecast is based on the assessments of market sales prices for comparable premises, build rates, sales costs levels etc from the point of view of a probable developer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)
In order to achieve a degree of concurrence among the results of different valuers' estimates certain basic criteria are applied, such as that the analysis is made in the current (nominal) monetary value, the minimum analysis period adequate to replicate how hypothetical operators in the market would act when being party to a transaction, with the payments should be scheduled in such a way that they reflect actual cash flows as accurately as possible.

To these projected cash flows, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property or business. In this case, it is a development property and thus estimates of capital outlays, development costs, and anticipated sales income are applied to arrive at a series of net cash flows that are then discounted over the projected development and marketing periods. The Net Present Value (NPV) could represent what someone might be willing to pay for the site and is therefore an indicator of market value.

In the event that development commencement and delivery dates are not met then, this may adversely affect the NPV. The DCF valuation has been made incorporating some very general assumptions in relation to site preparation, build costs, phasing and timing. Once further investigations into ground conditions, fell design, build costs and allowable phasing are established, these findings will likely lead to a difference in assessed value. All the payments are projected in nominal US dollar amounts and thus no inflation of local currency is considered.

Valuation Approach

In addition to the above general valuation methodology, the appraisers would point out the following bases of valuation that have been taken into account in arriving at Market Value:

Pre Development

In those instances where the nature of the 'Project' has been agreed with the City Authorities, it was assumed that the subject property will be developed in accordance with this blueprint, unless the appraisers have considered it prudent to adopt their own assumed concept.

The final outcome of the development of the property is determined by the Board of Directors decision, which is based on existing market conditions, profitability of the project, ability to finance the project and obtaining required construction permits.

Development

In terms of construction costs, the budgeted costs have been taken into account in considering opinions of value. However, the appraisers have also had regard to current construction rates passing in the market which a prospective purchaser may deem appropriate to adopt in constructing each individual scheme. Although in some instances the appraisers have adopted the budgeted costs provided, in some cases the appraisers' own opinions of costs were used.

Where there are outstanding payments to be made in respect of the acquisition of rights or costs of permitting, the appraisers have adopted those figures for calculation. In addition, with regard to outstanding costs for the provision of utilities together with the undertaking any road or transport works those figure was also accounted for.

Post Development

Rental values have been assessed as at the date of valuation but having regard to the existing occupational markets taking into account the likely supply and demand dynamics anticipated during the anticipated development periods concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

The assumption was made that upon completion, the properties will be let in line with market practices in terms of lease lengths, indexation of rents and recoverability of costs. The length of lease will vary depending upon the property type but, generally, these tend to be for periods of between three and five years.

In terms of indexation, the appraisers have not explicitly reflected the indexation of rents in arriving at their opinions of value. The standard letting fees were assumed within the valuations.

Upon completion of construction the appraisers have adopted their opinion of an appropriate holding period prior to the sale of the property. This period represents their considered view of the period a developer would hold the property in order to reach a target occupancy level and to be able to demonstrate a stable income flow to potential investors.

In arriving at their estimates of gross development value ("GDV"), the appraisers have capitalised their opinion of net operating income, having deducted any anticipated non-recoverable expenses, such as land payments, and permanent void allowance, which has then been capitalised into perpetuity.

The capitalisation rates adopted in arriving at the opinions of GDV reflect the appraisers' opinions of the rates at which the properties could be sold for on the assumption that they are completed as at the date of valuation. The adopted capitalisation rates reflect the appraisers' opinions of where they consider rates to be at present, although as a result of a lack of transparency in the market, and a relatively limited number of concluded transactions, this is a subjective exercise to a certain extent.

In terms of residential developments, the sales prices per sq. m. again reflect current market conditions and represent those levels the appraisers consider to be achievable at present. It was assumed that there are no irrecoverable operating expenses and that all costs will be recovered from the occupiers/owners by way of a service charge.

The valuations take into account the requirement to pay ground rental payments and these are assumed not to be recoverable from the occupiers. In terms of ground rent payments, the appraisers have assessed these on the basis of information available, and if not available they have calculated these payments based on current legislation defining the basis of these assessments. Property tax is not presently payable in Ukraine.

Intangible assets

Intangible assets, comprising of advertising rights are measured initially at purchase cost. Based on the normal market practice on prolongation of these rights the Group considers these intangible assets as assets with indefinite useful lives.

Subsequently to initial measurement the intangible assets are tested annually for impairment in accordance with IAS 36, Property, plant and equipment by comparing their recoverable amount with their carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

Leasing operations
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 statement of financial position 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 the statement of comprehensive income, 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.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income 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 statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other 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 the statement of comprehensive income 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.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Impairment of assets

Intangible 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)
Value added tax

VAT is levied at the following rates:

- 20% on Ukrainian domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Ukraine.
- 15% on Cyprus domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Cyprus.

A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT credit arise on the earlier of the date of payment to the supplier or the date goods are received. The part of VAT credit expected to be recovered in the long-term prospective is classified as non-current being discounted for discount reflecting principal market assumptions as to projects realization. Initial loss on discounting VAT credit, non-current was recognized as part of finance costs.

Earnings and Net Assets Value per share

The Group presents basic and diluted earnings per share (EPS) and net assets 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, 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.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds in share premium.

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 statement of financial position date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

2. Summary of significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as finance cost over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Comparative information

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period.

3. Financial risk management

Financial risk factors

The Group is exposed to liquidity risk, currency risk, operational risk, compliance risk, litigation risk, reputation risk, price risk, interest 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) 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. The following table details the Group's remaining contractual maturity for its non-derivative financial assets and financial liabilities with agreed repayment periods. The distribution of financial liabilities over period according to the maturity has been based on the expected undiscounted cash flow of financial liabilities and has included both principal and interest cash flows for the respective liabilities. As the interest rate is floating, the undiscounted amount of loans payable was derived from interest rate curve at the end of reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

3. Financial risk management (continued)

31 December 2010

	Carrying amount	**Total**	Less than one year	From one to two years	More than two years
Financial assets					
Accounts receivable	3 487 598	**3 487 598**	3 487 598	-	-
Cash and cash equivalents	291 053	**291 053**	291 053	-	-
Financial liabilities					
Finance lease liabilities	(636 214)	**(2 513 689)**	(114 739)	(83 534)	(2 315 416)
Loans payable	(15 570 649)	**(26 480 061)**	(1 128 296)	(2 338 824)	(23 012 941)
Accounts payable	(13 907 984)	**(13 907 984)**	(13 234 906)	(673 078)	-

31 December 2009

	Carrying amount	**Total**	Less than one year	From one to two years	More than two years
Financial assets					
Accounts receivable	1,559,667	**1,559,667**	1,559,667	-	-
Cash and cash equivalents	5,020,657	**5,020,657**	5,020,657	-	-
Financial liabilities					
Finance lease liabilities	(662,924)	**(2,596,020)**	(132,977)	(109,220)	(2,353,823)
Loans payable	(16,037,967)	**(26,609,767)**	(1,594,909)	(3,002,353)	(22,012,505)
Accounts payable	(9,300,830)	**(9,300,830)**	(8,534,465)	(766,365)	-

Forecast for liquidity reserve as at 31 December 2010, based on the existing project portfolio of the Group, is as follows:

	2011-2012	**2010-2011**
Opening balance for the period	**291 053**	**5 020 657**
Operating proceeds	5 515 045	5 311 440
Investment proceeds	6 000 000	4 000 000
Investment outflows	(3 270 000)	(3 270 000)
Operating and administrative outflows	(4 141 000)	(4 141 000)
Financing outflows	(3 436 000)	(4 584 500)
Closing balance for the period	**959 098**	**2 336 597**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

3. Financial risk management (continued)

The Group management monitors liquidity position on a daily basis. Brovary Logistics Centre has started generating income from the 1st Desember 2010, there is no significant increase of LIBOR that influences future interests payments of interests on EBRD loan (see Note 20 for loan details) and if the Group manages to recover some doubtful advances made for investments in land property in prior years, the Group will be able to sustain the proper level of liquidity.

(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.

A summary of the Group's exposure to foreign currency risk at the reported dates are presented below

			Currency		
As at 31 December 2010	**UAH**	**EUR**	**GBP**	**USD**	**Total**
US$ equivalent					
Trade and other receivables	2 082 651	-	-	-	**2 082 651**
Cash and cash equivalents	8 682	488	-	281 883	**291 053**
Loans payable	(4 333)	-	-	(15 529 412)	**(15 533 745)**
Interest on loans payable	-	-	-	(36 904)	**(36 904)**
Trade and other payables	(4 764 847)	(228 944)	(653 467)	(8 260 726)	**(13 907 984)**
	(2 677 847)	(228 456)	(653 467)	(23 545 159)	**(27 104 929)**

			Currency		
As at 31 December 2009	**UAH**	**EUR**	**GBP**	**USD**	**Total**
US$ equivalent					
Trade and other receivables	1,559,667	-		-	**1,559,667**
Cash and cash equivalents	561,680	866		4,458,111	**5,020,657**
Loans payable	(4,321)	-		(16,000,000)	**(16,004,321)**
Interest on loans payable	-	-		(33,646)	**(33,646)**
Trade and other payables	(3,793,859)	(231,483)	(601,772)	(4,673,716)	**(9,300,830)**
	(1,676,833)	(230,617)	(601,772)	(16,249,251)	**(18,758,473)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

3. Financial risk management (continued)
The sensitivity analysis prepared by management for foreign currency risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Meanwhile balances of Trade and other receivables, Cash and cash equivalents and Trade and other payables, that are considerably sensitive to UAH/US dollar exchange rate because the most part of these financial instruments are denominated in UAH, would increase/ (decrease) by US$ 267,784/ (267,784) in total due to such a change of UAH/ US dollar exchange rate.

Balances of other financial assets and liabilities are not substantially sensitive to movement in UAH/US dollar exchange rate because these financial instruments are denominated in other currencies.

(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.

(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 by the monitoring controls applied by the Group.

(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.

(6) Reputation risk

The risk of loss of reputation arising from the negative publicity relating to the Group. 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.

(7) Interest risk management

As the Group has the floating interest rate on the loan received from European Bank for Reconstruction and Development (further "EBRD") it is exposed to LIBOR interest risk.

The Group monitors the market interest rate to timely initiate changes of fixed part of interest.

The sensitivity analysis for LIBOR changes applying to the interest calculation on the Loan principal outstanding as at the 31 December 2010 is presented below

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

3. Financial risk management (continued)

	Actual as at 31.12.2010	+100 bps	+200 bps
Libor (3 mnths)	0,25%	1,25%	2,25%
Yearly interests accrued	1 087 059	1 242 353	1 397 647

(8) 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.

(9) 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. While the Group's overall strategy remains unchanged from last year, the Board of Directors has decided not to proceed with the acquisitions currently under Preliminary Agreements. The Group is working on recovering advances granted under Preliminary and Mortgage Agreements.

(10) 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.

(11) Fair value estimation

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the financial position 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

4. Critical accounting estimates and judgements (continued)

- **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 tangible assets**

  Assets that are subject to depreciation 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).

- **Impairment of intangible assets**

  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.

- **Provision for deferred taxes**

  Deferred tax is not provided in respect of the revaluation of the investment property and investment property under construction as the Group is able to control the timing of the reversal of this temporary difference and the management has intention not to reverse the temporary difference in the foreseeable future. The properties are held by subsidiary companies in Ukraine. The management estimates that the assets will be realised through a share deal rather than through an asset deal. Should any subsidiary be disposed of, the gains generated from the disposal will be exempted from any tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

5. Administration expenses

	2010 US$	2009 US$
Management fee	3 492 678	2 782 900
Legal fees	239 162	797 283
Salaries and Wages	688 160	570 850
Audit	91 316	312 666
Directors remuneration	185 385	230 917
Security	337 842	212 320
Consulting fees	335 885	163 935
Public group expenses	117 617	154 459
Office rent	142 550	140 929
Travelling expenses	13 144	95 339
Taxes and duties	60 704	89 975
Other office expenses	119 073	85 551
Accounting fees	67 751	79 545
Apartment rent	25 842	69 449
Depreciation	20 303	60 881
Administration fees	8 730	38 252
Marketing fees	12 080	-
Other expenses	19 865	61 472
	5 978 087	**5 946 723**

6. Finance (income) / costs, net

	2010 US$	2009 US$
Loss from discounting VAT recoverable, non-current	(1 050 843)	2 398 890
Foreign exchange losses, net	(263 388)	2 301 804
Finance charges and comissions	132 529	166 121
Bank interests expenses	1 150 869	20 849
Bank interests income	(84 694)	(15 553)
Other finance expenses	-	159
	(115 527)	**4 872 270**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

7. Other (income)/expenses, net

	2010 US$	2009 US$
Advances for investments - impairment loss	(770 940)	6 128 205
Penalties	1 788	3 133 253
Receivables - impairment loss	111 899	1 253 167
Property, plant and equipment impairment loss	-	95 772
Other expenses, net	95 520	272 253
	(561 733)	**10 882 650**

The Group incurred penalties due to late delivery of Brovary Logistics Park to UVK. See Note 22 for further details.

The Group decided to provide for impairment against the advances for property, plant and equipment, intangible assets, investments and receivables and as at 31 December 2010. See Notes 12, 15, 16 and 17 respectively.

8. Tax

	2010 US$	2009 US$
Income tax - current year	-	-
Defence contribution	-	10
Charge for the year	-	10

The income tax rate for the Company's Ukrainian subsidiaries is 25% for the year ended 31 December 2010 (31 December 2009 and 2008: 25%). The corporate tax that is applied to the qualifying income of the parent company and its Cypriot subsidiaries is 10% for the year ended 31 December 2010 (31 December 2009 and 2008: 10%)

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

	2010 US$	2009 US$
Profit/(Loss) before tax	**(25 240 657)**	**(39 172 251)**
Tax calculated at the applicable tax rates	(5 819 619)	(8 605 412)
Allowance for tax losses carry forward	1 494 522	502 438
Defence contribution current year	-	10
(Income)/(Loss) on revaluation not subject to tax	4 991 281	4 367 521
Expenses not recognized for tax purposes	276 569	3 717 101
Other movements in deferred tax	(942 753)	18 352
Tax charge	**0**	**10**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2010

8. Tax (continued)

As from 1 January 2008, deferred tax is not provided in respect of the revaluation of the investment property and investment property under construction as the Group is able to control the timing of the reversal of this temporary difference and the management has intention not to reverse the temporary difference in the foreseeable future, the properties are held by subsidiary companies in Ukraine. The management estimates that the assets will be realised through a share deal rather than through an asset deal. Should any subsidiary be disposed of, the gains generated from the disposal will be exempted from any tax.

The respective reversal of previously accrued Deferred Tax Liabilities has been made in 2008.

9. Share capital

	Number of shares	Share Capital US$	Share Premium US$
Authorised			
Ordinary shares of CY£0.01 each converted into EUR0.01 each	875 000 000		
Issued and fully paid			
At 1 January 2010	414 272 792	5 431 918	94 523 283
At 31 December 2010	**414 272 792**	**5 431 918**	**94 523 283**

	Number of shares	Share Capital US$	Share Premium US$
Authorised			
Ordinary shares of CY£0.01 each converted into EUR0.01 each	875 000 000		
Issued and fully paid			
At 1 January 2009	192 194 975	2 283 299	92 683 930
Issue of shares	222 077 817	3 148 619	1 839 353
At 31 December 2009	**414 272 792**	**5 431 918**	**94 523 283**

On 30 September 2010 the Company obtained a court order for the issue of 222,077,817 shares of € 0,01 each with effect from 9 August 2009. The Company has also filed the required documents with the Registrar of Companies for the issue and allotment of the above shares at a price of € 0,01765 representing a premium of € 0,00765 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

10. Stock based compensation for directors

Share Option for Directors

On 25 July 2007, the parent 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 parent 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 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.

The Company recognized respective equity reserve for share options in the statement of financial position as at 31 December 2010 and 2009 in the amount of US$ 68,390.

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

Weighted average number of ordinary shares

	2010 Number	*2009 Number*
Issued ordinary shares at 1 January	**414,272,792**	192,194,975
Ordinary shares additionally issued	**-**	222,077,817
Issued ordinary shares at 31 December	**414,272,792**	414,272,792
Issued and prepaid ordinary shares at 31 December	**414,272,792**	414,272,792
Weighted average number of ordinary shares	**414,272,792**	284 727 399
Diluted weighted number of ordinary shares	**414,272,792**	284 727 399

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

11. Earnings and net assets per share attributable to equity holders of the parent (continued)

Basic, diluted and adjusted earnings per share

	2010 Loss after tax US$	**2010 Earnings per share US$**	2009 Loss after tax US$	2009 Earnings per share US$
Basic	(24 934 873)	(0,06)	(38 901 144)	(0,14)
Diluted	(24 934 873)	(0,06)	(38 901 144)	(0,14)

Net assets per share

2010	**Net assets**	**Number of shares**	**Net assets per share**
Basic	24 960 584	414 272 792	0,06
Diluted	24 960 584	414 272 792	0,06

2009	**Net assets**	**Number of shares**	**Net assets per share**
Basic	49 670 500	414 272 792	0,12
Diluted	49 670 500	414 272 792	0,12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

12. Property, plant and equipment

	Furniture, fixtures and equipment	Software and hardware	Motor vehicles	Leasehold	Citylights	Total
	US$	US$	US$	US$	US$	US$
Cost:						
At 1 January 2010	**59 196**	**36 861**	**107 781**	**26 573**	**113 551**	**343 962**
Additions	13 261	3 021	-	-	-	**16 282**
Disposals	(6 931)	(6 852)	-	-	-	**(13 783)**
Translation difference	(10 040)	4 504	(852)	(2 678)	498	**(8 568)**
At 31 December 2010	**55 486**	**37 534**	**106 929**	**23 895**	**114 049**	**337 893**
Accumulated depreciation:						
At 1 January 2010	**(30 900)**	**(27 404)**	**(52 190)**	**(13 286)**	**(53 964)**	**(177 744)**
Charge for the year	(8 074)	(6 057)	(41 963)	(4 643)	(20 446)	**(81 183)**
Disposals	2 903	4 137		-	-	**7 040**
Translation difference	6 769	(104)	1 216	4 075	(486)	**11 470**
At 31 December 2010	**(29 302)**	**(29 428)**	**(92 937)**	**(13 854)**	**(74 896)**	**(240 417)**
Impairment						
At 31 December 2009	**(354)**	**(1 358)**	**(32 155)**	**-**	**(59 587)**	**(93 454)**
At 31 December 2010	**(137)**	**(271)**	**(3 132)**	**-**	**(39 153)**	**(42 693)**
Net book amount:						
At 31 December 2009	**27 942**	**8 099**	**23 436**	**13 287**	**-**	**72 764**
At 31 December 2010	**26 047**	**7 835**	**10 860**	**10 041**	**-**	**54 783**

	Furniture, fixtures and equipment	Software and hardware	Motor vehicles	Leasehold	Citylights	Total
	US$	US$	US$	US$	US$	US$
Cost:						
At 1 January 2009	**75,040**	**32,405**	**107,007**	**27,556**	**98,185**	**340,193**
Additions	73	6,066	4,707	-	17,891	**28,737**
Disposals	(4,406)	-	-	-	(3,448)	**(7,854)**
Translation difference	(11,511)	(1,610)	(3,933)	(983)	923	**(17,114)**
At 31 December 2009	**59,196**	**36,861**	**107,781**	**26,573**	**113,551**	**343,962**
Accumulated depreciation:						
At 1 January 2009	**(21,870)**	**(16,929)**	**(47,215)**	**(9,185)**	**(37,291)**	**(132,490)**
Charge for the year	(9,750)	(11,513)	(15,768)	(4,539)	(19,311)	**(60,881)**
Translation difference	720	1,038	10,793	438	2,638	**15,627**
At 31 December 2009	**(30,900)**	**(27,404)**	**(52,190)**	**(13,286)**	**(53,964)**	**(177,744)**
Impairment						
At 31 December 2008	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December 2009	**(354)**	**(1,358)**	**(32,155)**	**-**	**(59,587)**	**(93,454)**
Net book amount:						
At 31 December 2008	**53,170**	**15,476**	**59,792**	**18,371**	**60,894**	**207,703**
At 31 December 2009	**27,942**	**8,099**	**23,436**	**13,287**	**-**	**72,764**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

13. Investment property under construction

	2010 US$	2009 US$
At 1 January	**35 319 000**	**41 867 000**
Transfer to investment properties	(23 490 000)	-
Investment property related costs	(1 003 062)	12 716 603
Revaluation losses on investment property	(563 045)	(17 895 730)
Translation (gains)/losses	37 107	(1 368 873)
At 31 December	**10 300 000**	**35 319 000**

The Group has completed the construction of the Brovary Logistics Center at 30 September 2010 and has reclassified it according to IAS 40 from Investment Property under Construction to Investment Property in 2010.

The investment property related costs include prepayments made by the Group for construction works in the amount of US$ 491,360 at 31 December 2010.

Up to 31 December 2007 investment properties under development were carried at cost plus any development costs after initial recognition and were stated as Property under Construction in the financial statements. IAS 16 requirements were applied to the Investment property under development during the period of development. As such, no fair value gains were recognised in the statement of comprehensive income of 2007 on these properties.

The Group has decided to take advantage of the permission allowed in IAS 40 “Investment Property” to apply the amendments to investment property under construction in the financial statements of 2008. Therefore, the fair value gains on investment property of US$ 25,665,532 appearing in the statement of comprehensive income of 2008 include fair value gains of US$ 14,200,904 on investment properties under construction valued at fair value for the first time in 2008.

14. Investment property

	2010 US$	2009 US$
At 1 January	**22 873 000**	**22 894 000**
Transfer from investment property under construction	23 490 000	-
Investment property related costs	6 491 239	390 248
Revaluation (losses)/gains on investment property	(19 402 077)	425 645
Translation difference	178 838	(836 893)
At 31 December	**33 631 000**	**22 873 000**

At 31 December 2010 the Group purchased a new project, Balabino village, which includes a land plot of 21.19 ha and is located 3 km away from the boundary of the city of Zaporizzhya. The market value of the property according to valuation performed by DTZ Kiev B.V ("DTZ") is US$ 4,750,000 at date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

14. Investment property (continued)

The investment property capitalised costs include, among other items, the following capitalised items:
- Interests and fees on EBRD loan (see Note 20) in the amount of US$ 242,307
- Land held under operating lease but accounted for as if it were a finance lease being recognised as an asset in the amount of US$ 449,165 at 31 December 2010
- Prepayments made by the Group for construction works in the amount of US$ 5,779 at 31 December 2010

On acquisition date and as at 31 December 2010, the properties were valued by DTZ Kiev B.V ("DTZ"), an external valuer. The valuer's opinion of the Market Value of each property has been primarily derived using 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.

15. Intangible assets

	Advertising rights US$		Advertising rights US$
Cost:		**Cost:**	
At 1 January 2010	**1 999 388**	**At 1 January 2009**	**1 999 388**
Translation difference	(761 542)	Translation difference	(765 396)
Impairment provision	(1 237 846)	Impairment provision	(1 233 992)
Net book value:		**Net book value:**	
At 1 January 2010	-	**At 1 January 2009**	-
At 31 December 2010	-	**At 31 December 2009**	-

The test of impairment performed by the management as at 31 December 2009 and 2010 has shown significant deterioration of the value of advertising rights resulted from the business combination of one of the Company's subsidiaries Aisi Outdoor. These results mainly reflect changes of market conditions, and decrease of demand for advertising services. Following the prudence concept for financial statements preparation the management has decided to make 100% impairment provision for these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

16. Advances for investments

	2010	2009
	US$	US$
Advances for investments	11 847 043	17 267 803
Impairment provision	(5 847 043)	(7 969 858)
	6 000 000	**9 297 945**

As at 31 December 2009 the Group has decided to provide for impairment provision against the advances for investments in the amount of US$ 7,969,858. These advances were granted to several companies and an individual in respect of land plots.

17. Accounts receivable

	2010	2009
	US$	US$
Interest receivable	658 620	1 337 825
VAT and other tax receivable	1 404 947	216 396
Prepayments and other current assets	1 819 979	508 193
Receivables from related parties (Note 24)	1 256	1 252
Impairment of prepayments and other receivables	(397 204)	(287 603)
	3 487 598	**1 776 063**

As at 31 December 2010 the Group has excluded interest on the outstanding balance of advances made in the previous periods for acquired project (see Note 16).

As at 31 December 2009 the Group has accrued interest on the outstanding balance of advances made in the previous periods for investments in property (see Note 16)

The VAT receivable includes the amount of US$ 1,220,188 confirmed by the tax audit for compensation by government to the bank account of Group in 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

18. Cash and cash equivalents

	2010	2009
Denominated in:	US$	US$
USD	281 883	4 458 111
UAH	8 682	561 680
EUR	488	866
	291 053	**5 020 657**

The Group has current accounts and reserve account opened in USD to satisfy EBRD requirements under the loan agreement (see Note 19 for details). The balances of the accounts were the following

	2010	2009
	US$	US$
Current accounts	19 298	4 419 998
Reserve account	271 755	600 659
	291 053	**5 020 657**

At 31 December 2010 the balance of the reserve account was less than required under the loan agreement with EBRD.

19. Loans and borrowings due

	2010	2009
	US$	US$
Principal	15 529 412	16 000 000
Principal due to related parties (Note 24)	4 333	4 321
Interests	36 904	33 646
	15 570 649	**16 037 967**

At 31 December 2010, the bank loan is a credit facility from EBRD. The Group signed the loan agreement with EBRD on 12 January 2009. The limit of the credit facility is US$ 34,400,000. The first tranche in the amount of US$ 16,000,000 has been received by the Group in two disbursements by the end of 2009. The loan bears interest at 3 months LIBOR plus 6.75%, and is repayable in 34 equal instalments of US$ 470,588 starting from 18 December 2010. The purpose of financing is the completion of Brovary Logistics Centre project and refinancing of LLC Terminal Brovary expenses incurred in prior periods in relation to the project.

Availability of the second tranche in the amount of US$ 18,400,000 depends on a number of criteria LLC Terminal Brovary should satisfy.

As at 31 December 2010 the Group pledged as collateral to secure the bank loan the following :

1. LLC Terminal Brovary pledged all its rights under the general contractor agreement
2. LLC Terminal Brovary pledged all movable property with the carrying value more than US$ 25,000
3. LLC Terminal Brovary pledged its Investment property, Brovary Logistics Centre that was finished construction in 2010 (see Note16), and all property rights on the centre
4. Aisi Realty Public Ltd pledged 100% corporate rights in Aisi Logistics Ltd, a Cyprus Holding Company for the Shareholder of LLC Terminal Brovary, LLC Aisi Brovary
5. Aisi Logistics Ltd pledged 99% corporate rights in LLC Aisi Brovary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

19. Loans (continued)

6. LLC Aisi Brovary pledged 100% corporate rights in LLC Terminal Brovary
7. LLC Terminal Brovary pledged all current and reserved accounts opened by LLC Terminal Brovary in Erste Bank, Ukraine

Also the Group issued the corporate guarantee dated 12 January 2009 to guarantee all liabilities and fulfilment of conditions under the loan agreement signed with EBRD. The maturity of the guarantee is equal to the maturity of the loan.

The credit agreement with EBRD includes amongst others the following applicable as at 31 December 2010 requirements for LLC Terminal Brovary and the Group as a whole:

1. Consolidated total liabilities to audited equity of the Company, adjusted for deferred tax and independent valuation, should not exceed 60% over the life of Aisi Realty Public Guarantee.
2. Prior to Brovary Logistics Centre project completion minimum target net worth (Equity less accumulated Goodwill) of Aisi Realty Public Ltd should not be less than US$ 98,000,000.
3. Prior to Brovary Logistics Centre project completion minimum audited equity of the Company should not be less than US$ 100,000,000
4. At all times minimum value of unencumbered assets and cash of the Company should not be less than US$ 30,000,000 (based on the Group consolidated results).
5. During the first 12 months after the first disbursement of the first tranche subject to EBRD's sole discretion LLC Terminal Brovary should maintain Debt to Equity (Loan to Cost) ratio as 30:70
6. At all times prior to Brovary Logistics centre project completion LLC Terminal Brovary should maintain the Debt Service Reserve Account balance not less than a nine-month debt service payment

As at 31 December 2010, certain of these requirements were not in compliance. That gives EBRD the right to demand immediate repayment of the loan. However, the Group's management believes that EBRD will not execute its right to demand immediate repayment of the loan.

20. Obligations under finance leases

	Minimum lease payments 2010 US$	Interest 2010 US$	Principal 2010 US$
Less than one year	114 739	83 410	31 329
Between two and five years	417 669	321 384	96 285
More than five years	1 981 280	1 630 015	351 266
	2 513 688	**2 034 809**	**478 880**

	Minimum lease payments 2009 US$	Interest 2009 US$	Principal 2009 US$
Less than one year	132 977	76 089	56 888
Between two and five years	393 385	326 595	66 790
More than five years	2 069 658	1 686 353	383 305
	2 596 020	**2 089 037**	**506 983**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

20. Obligations under finance leases (continued)

The Group has the cars obtained under finance lease agreements and rent land plots.

Lease obligations related to the cars are denominated in EUR and USD. Other obligations are denominated in UAH.

At 31 December 2010 the current finance lease liabilities consist of interest balance due in the amount of US$13,640 and principal due in the amount of US$ 31,329.

At 31 December 2010 the non-current finance lease liabilities consist of interest balance due in the amount of US$ 143,695 and principal due in the amount of US$ 447,550.

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 lessor’s title to the leased assets.

21. VAT non-current

	2010 US$	2009 US$
VAT, non-current	3 844 829	4 161 644
Impairment	(917 890)	(947 935)
	2 926 939	**3 213 709**

Based on the results of the impairment test made, the Company decided to provide VAT not supported by the tax bills for the period of more than one year, which is required by law to be recovered, for 100% impairment provision.

22. Accounts payable

	2010 US$	2009 US$
Payables to related companies (Note 24)	7 730 650	4 058 625
Fines payable	1 504 390	1 500 000
Payables for services	2 194 431	1 080 724
Long-term notes	20 096	-
Guarantee reserve on construction works, non-current	652 981	766 365
Guarantee reserve on construction works, current part	815 951	766 365
Accruals	679 581	636 933
Payables to directors	208 644	356 217
Payables for construction	24 924	117 338
VAT and other taxes payable	76 335	18 263
	13 907 983	**9 300 830**

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

The Group has created reserves on construction works performed by general contractors. The reserves equal to 5%-6.5% of the amount of each accepted act of works and is due for payment by the end of the definite term

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

22. Accounts payable (continued)

as per the agreement between the respective subsidiary of the Group and the general contractor.

Fines payable are due to UVK, the possible tenant of Brovary Logistics Centre. The Group's subsidiary LLC Aisi Bela pledged the owned land plots to secure those payables. The size of pledged land plots is 22,39 hectars. The carrying amount of this investment property as of 31 December 2010 is US$ 10,891,000.

At 31 December 2010 there is the valid corporate guarantee issued by the Company to guarantee the fines stated on the balance.

23. Current tax liabilities

	2010	2009
	US$	US$
Income tax	**510,230**	510,230
Special contribution for defence	**10**	10
	510,240	510,240

24. Related party transactions

The following transactions were carried out with related parties:

Management fees (Note 5)

	2010	2009
	US$	US$
Aisi Realty Capital LLC	**3,492,678**	2,782,900
	3,492,678	2,782,900

The management fee is calculated at the rate of 2,5% on the committed capital. One principal of Aisi Realty Capital LLC is executive director of Aisi Realty Public Limited.

Payables to related parties (Note 22)

	2010	2009
	US$	US$
Aisi Realty Capital LLC	**7,711,332**	4,041,020
Andro Namicheishvili	**19,318**	17,605
	7,730,650	4,058,625

Borrowings from related parties (Note 19)

	2010	2009
	US$	US$
Besik Sikharulidze	**4,333**	4,321
	4,333	4,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2010

24. Related party transactions (continued)

Receivables from related parties (Note 17)

	2010	2009
	US$	US$
Andro Namicheishvili	**1,256**	1,252
	1,256	1,252

25. Contingencies

As at 31 December 2010 the Group was a party to a number of litigations with former employees and former and existing counterparties. The Group decided to make a provision in the amount of US$ 74,910 based on the status of litigations at 31 December 2010 (US$74,691 at 31 December 2009).

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 the lease agreement on the basis that the land is not used in accordance with its designation.

The Group possesses a number of land lease agreement with the City Authorities on the land plots under warehouse and residential projects. The City Authorities has the right to revise the lease land rates in line with the market.

26. Commitments

Operating lease commitments

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

	2010	2009
	US$	US$
Within one year	**73,995**	103,304
Between one and five years	**32,000**	42,019
After five years	**-**	-
	105,995	145,323

Capital commitments

The Group has entered into construction agreements with the constructors of investment property that was recognized as investment property under construction as at 31 December 2010. These agreements resulted in capital commitments amounting to US$ 47,106,062 as at 31 December 2010. This amount reflects amongst others, commitments under agreements that the Group is going to terminate in the nearest future as they duplicate works made under other contracts.

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27. Business combinations

In December 2010 Aisi Realty PLC has purchased 100% of LLC Mirelium Investments (Balabino village) that is owner of 100% of LLC Interterminal.

The fair value of the identifiable assets and liabilities of LLC Mirelium Investments and it subsidiary LLC Interterminal as at the date of acquisition were:

	Fair value recognised on acquisition US$	Previous carrying value in the subsidiary US$
ASSETS		
Investment property	4 750 000	3 313 802
Current assets	20	20
Total assets	**4 750 020**	**3 313 822**
Current liabilities	(4 753)	(4 753)
Total liabilities	**(4 753)**	**(4 753)**
Net assets acquired	**4 745 267**	**3 309 069**
Investment cost	4 745 267	
The difference in acquisition and operations under total control	-	

The difference in acquisition and operations under total control has included to comprehensive income of the Group for 2010 year.

The cost of acquisition of the above investment was set off against the advance for investments as per Note 16.

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28. Events after the reporting period

In May 2011 the Group signed a restructuring agreement with EBRD on the US$34.4m facility with US$15.5m outstanding on the Group's Brovary warehouse. The agreement provides Aisi with a grace period on the principal repayments until September 2012, and extends the duration of the loan by 18 months compared with the original term.

The Group signed with EBRD the call option following an event of default at any time during the call period to purchase at the call price from the shareholder 20% of the participatory interest in the charter capital of LLC Terminal Brovary held by shareholder prior to the settlement date including a second ranking mortgage of all of the present and future immovable property. EBRD shall be entitled to any dividend or any other distribution to the participants of the Borrower declared but not yet received by the Shareholder prior to the settlement date, on or with respect to such participatory interest purchased under the call option

Whilst the restructuring of the EBRD facility is the first step in securing the ongoing financial position of the Group, given the small contracted rental income to date, the available working capital of the Group continues to be very tight. On 20 June 2011 the company was not able to make the interest payment due, and plans to remedy the situation once discussed Funding is concluded.

On 1 June 2011 the Company made a further announcement that it had requested that trading in the Existing Ordinary Shares on AIM be suspended until such time that it had secured all necessary funding to enable to it to carry on as a going concern.

The discussions with an independent third party investor group, namely South East Continent Unique Real Estate (SECURE) Management ("Secure Management"), have now been concluded and the Board is pleased to announce that the Company has entered into a Subscription Agreement with Narrowpeak Consultants Limited (the "Investor"), a member of the Secure Management group, conditional on, inter alia, the Proposed Investment Resolutions (as set out in the Notice of First EGM) being passed by Shareholders at the First EGM and completion of due diligence to the satisfaction of the Investor, following which the Investor proposes to make a substantial investment in the Company on the certain terms.

The Board is also convening the Second EGM to put forward the Capital Reorganisation Resolutions for Shareholder approval. The Capital Reorganisation Resolutions will enable the Company to restructure its share capital from Existing Ordinary Shares to New Ordinary Shares. The requisite notice period under the Act for the Capital Reorganisation Resolutions is longer than the Proposed Investment Resolutions. Accordingly, the Company is proposing the Capital Reorganisation Resolutions at the Second EGM rather than the First EGM so that the Proposed Investment Resolutions are put to Shareholders without delay.

As the Group was not able to secure any financing, in January 2011 Mr. Besik Sikharulidze obtained a personal loan in the amount of US$150 000 to avoid imminent liquidation threats. The loan was secured on a land plot which is the property of the company LLC "AISI Ukraine". The maturity date of the loan is 22 August 2011.