



AISI REALTY PUBLIC LTD
REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS
31 December 2008

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31 December 2008

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS

Board of Directors

Paul Robert Ensor, Chairman
Besik Sikharulidze, Director
Antonios Achilleoudis, Director
David Mann Flitterman, Director
Franz Hoerhager, Director
Elena Maksimova, Director

Principal Places of Business

Prytys'ko-Mykilska 5
Kiev 04070
Ukraine

10 Post Office Square
Suite 605
Boston
MA 02109
USA

Registered Address

Totalserve House
17 Gr. Xenopoulou Street
Limassol 3106
Cyprus

Company Secretary

Totalserve Management Ltd
Totalserve House
17 Gr. Xenopoulou Street
Limassol 3106
Cyprus

Nominated Adviser

Seymour Pierce Limited
20 Old Bailey
London
EC4M 7EN
United Kingdom

Broker

Seymour Pierce Limited
20 Old Bailey
London
EC4M 7EN
United Kingdom

Legal Advisers

Baker & McKenzie - CIS, Limited
Renaissance Business Center
24 Vorovskoho Street
Kiev 01054
Ukraine

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

Directors, Secretary and Advisors (Continued)

Auditors

Baker Tilly Klitou
163 Leontiou Street
Clerimos Building
3022 Limassol
Cyprus

Public Relations

Corfin Communications Ltd
Suite 206/207
1 Alie Street
London
E1 8DE
United Kingdom

Registrars

CLR Securities and Financial Services Ltd
CLR House
26 Byron Avenue 1096
PO BOX 24616
1301 Nicosia
Cyprus

Bankers

Bank of Cyprus Public Company Ltd
P.O. Box 24884
1398 Nicosia
Cyprus

ING Bank of Ukraine
30A Spaska Street
Kiev 04070
Ukraine

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 2008.

Principal activity

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

Review of current position, future development and significant risks

The Group's development to date, financial results and position as presented in the financial statements are not considered satisfactory and the Board of Directors is making an effort to reduce the Group's losses.

The construction of the Brovary warehouse was 100% funded through equity capital of the Group and is currently 75% completed. Completion is anticipated by the end of November 2009, provided that the necessary funding is obtained.

In January 2008 the Group completed the acquisition of the remaining 10% stake in Terminal Brovary for US\$0.4 million as agreed at the time of the original acquisition.

In July 2008 a 10-year pre-let agreement was signed with UVK, a leading Ukrainian logistics operator, for the entire development comprising approximately 49,200 sq. m of warehousing space, at rental values that are in line with market rates. Due to the changes in terms of debt financing that caused completion delay, in July 2009 the Company has renegotiated and is ready to sign a new Preliminary Agreement.

In January 2009 the Group has signed a loan facility agreement with the European Bank for Reconstruction and Development ("EBRD") for \$34.4m of project finance for Brovary Logistics Centre. The EBRD financing will comprise a \$34.4m senior loan of which at least \$17.20m may be syndicated to commercial banks. The funds will be used for the completion of the logistics centre, one of the first Class 'A' logistics warehouses to be built in Ukraine and to address the severe shortage of Class A warehouse space in the Kiev region. EBRD has agreed to release immediately \$13.25 m without the participation of a syndicate bank provided all equity requirements and Condition Precedents are met.

In April 2008 the Group has signed an agreement with a general contractor for the construction of the buildings for the Bela Logistics Park development in Odessa. In July 2008 the Group has signed an agreement with Marfin Popular Bank Public Co Ltd, a Cypriot Bank with one of the largest international presence, for the construction and post-construction loan for Aisi's Bela Logistics Park in Odessa. Under the agreement, Aisi will borrow up to \$65 million, secured against the asset and a corporate guarantee to complete the development and construction of the facility subject to fulfilling condition precedents. The funds have been secured at internationally competitive rates.

Currently the Board of Directors decided that in the current climate it would not be in the interest of the Group to drawdown on the facility and build the warehouse of 100,000 sq. m as designed initially. The Group is currently in negotiations with the bank about restructuring the loan facility to allow construction in phases.

Considering the current market conditions, the Board of Directors has decided not to proceed with the finalization of acquisitions that are currently under Preliminary Agreements. The Group is working on recovering advances granted under Preliminary and Mortgage Agreements.

The Group is working on addressing near term liquidity issue through potential Equity raise as well as recovery of advances made for pipeline projects. If successful, first project completion (Brovary warehouse) should occur in Q4 2009 and the Group will be generating operating cash in 2010. If unsuccessful in raising new equity or recovery of advances in the near term, the Group may face severe liquidity crunch that may adversely affect its ability to continue operations.

REPORT OF THE BOARD OF DIRECTORS

Results and Dividends

The Group's results for the year are set out on page 11. The Board of Directors does not recommend the payment of a dividend.

Share Capital

On June 27, 2008 the issued share capital of the Company was increased by the issue of 26,003,146 shares at par value of Euro 0.01 each, as a result of 26,003,146 warrants to the Founding Shareholders being exercised. The total number of outstanding shares increased to 192,194,975.

Board of Directors

The members of the Board of Directors of the Company as at December 31, 2008 and at the date of this Report are shown on page 3. While all Directors are non-executive, two of them are Principals of the Investment Manager.

Mr. Paul Ensor and Mr. Antonios Achilleoudis retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

All Directors have entered into service agreements and have received options as per Note 11.

Post balance sheet events

Significant events that occurred after the end of the year are described in Note 28 to the financial statements.

Independent Auditors

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

By order of the Board of Directors



Paul Robert Ensor
Director

Limassol, 23 July 2009



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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 and its subsidiaries (the "Group") on pages 11 to 49, which comprise the consolidated balance sheet at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement 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 and fair presentation of these consolidated and Company's separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and Company's separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 financial statements.

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

Baker Tilly Klitou and Partners Ltd
trading as Baker Tilly Klitou



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Registered in Cyprus (Reg. No. 156870) List of Directors can be found at the Company's Registered Office

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and 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 we draw your attention to notes 2, 15, 16, 25 and 28 of the 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\$19.068.589 during the year ended 31 December 2008. Even though at 31 December 2008 the Group's total assets exceed its total liabilities by US\$84.175.717 the validity of the going concern basis is dependent on the Group's ability to obtain the necessary funding through new issues of shares or bank facilities in order to complete the development of the properties so as to generate income. The actions taken by management to obtain the necessary funding have not yet been finished. The future viability of the Group depends on the outcome of these actions. 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. The directors have prepared these 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 as current assets and to provide for any further liabilities that may arise.

Valuation of investment properties

The valuation of these investment properties as indicated in notes 2, 15 and 16 to the 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 Balance Sheet date.

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

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.

As stated in Note 28, the appraisal of investment property as at 31 December 2008 was performed by DTZ and was completed in February 2009. The fair values of the investment property reflect market conditions at the balance sheet date. These property appraisals are performed using “Red Book” standards, and are also based on conservative and realistic assumptions agreed by appraisers and management. Since the time that these property appraisals were performed, Directors and management have decided to adopt an even more conservative policy to property valuations which will reflect and anticipate the evolving changes in the Ukrainian property market and in the Group’s business. The valuations therefore would have been lower if the appraisals were done at the date of approval of the financial statements since market conditions have deteriorated further since the Balance sheet date. The updated approach will be reflected in the next appraisals which DTZ will conduct for the period ending 30 June 2009 and which will be reflected in the Company’s financial statements for the same period.

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. 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 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.

In addition, the 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 to rescind the land lease or not to grant a renewal.

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 2008. These agreements resulted in capital commitments amounting to US\$56.202.699 as at 31 December 2008.


Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 5 to 6 is consistent with the consolidated financial statements.

Other Matter

This report including the opinion has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other person to whose knowledge this report may come to.



Baker Tilly Klitou

Nicosia 23 July 2009

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

	Note	2008 US\$	2007 US\$
Revenue			
Fair value gains on investment property	15,16	25,665,532	7,700,602
Miscellaneous income		340,281	106,320
		<u>26,005,813</u>	<u>7,806,922</u>
Income from investing activities, net	7	1,166,406	1,905,564
Expenses			
Administration expenses	5	(6,928,048)	(4,576,062)
Finance costs, net	6	(36,778,178)	(158,521)
Other (costs)/ income, net	8	(2,534,582)	2,984
(Loss) / Profit before tax		<u>(19,068,589)</u>	<u>4,980,887</u>
Tax	9	5,377,127	(2,299,572)
Net (loss) / profit for the year		<u>(13,691,462)</u>	<u>2,681,315</u>
Attributable to:			
Equity holders of the parent		(15,482,825)	2,555,372
Minority interest		1,791,363	125,943
		<u>(13,691,462)</u>	<u>2,681,315</u>
(Loss) / Earnings per share attributable to equity holders of the parent (cent)	13	<u>(8.6)</u>	<u>2.1</u>

The notes on pages 16 to 49 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
31 December 2008

	Note	2008 US\$	2007 US\$
ASSETS			
Non-current assets			
Property, plant and equipment	14	207,703	295,376
Investment property under construction	15	41,867,000	6,722,135
Investment property	16	22,894,000	32,830,000
Intangible assets	17	-	1,999,388
Advances for investments	18	15,426,229	13,096,473
Prepayments under development contracts		2,511,292	9,280,211
		<u>82,906,224</u>	<u>64,223,583</u>
Current assets			
Accounts receivable	19	6,372,133	829,952
Cash and cash equivalents		35,733	43,708,552
		<u>6,407,866</u>	<u>44,538,504</u>
Total assets		<u>89,314,090</u>	<u>108,762,087</u>

The notes on pages 16 to 49 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)
31 December 2008

EQUITY AND LIABILITIES

Equity attributable to owners of the parent

Share capital	10	2,283,299	1,881,092
Share premium		92,683,930	92,683,930
(Accumulated losses) / Retained earnings		(10,381,955)	5,100,870
Other reserves		46,710	-
Translation reserve		(2,091,777)	-
		82,540,207	99,665,892

Minority interest		1,635,510	754,053
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Total equity		84,175,717	100,419,945
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Non-current liabilities

Obligations under finance leases	20	52,747	94,455
Deferred tax liabilities	21	-	6,423,314
Accounts payable	22	1,018,414	-
		1,071,161	6,517,769

Current liabilities

Accounts payable	22	3,211,194	1,708,039
Obligations under finance leases	20	33,236	23,695
Current tax liabilities	23	822,782	92,639
		4,067,212	1,824,373

Total liabilities		5,138,373	8,342,142
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Total equity and liabilities		89,314,090	108,762,087
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On 23 July 2009 the Board of Directors of Aisi Realty Public Ltd authorised the issue of these financial statements.



Paul Robert Ensor
Director



Besik Sikharulidze
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2008

	Attributable to equity holders of the Parent							Minority interest US\$	Total US\$
	Share capital US\$	Share premium US\$	Notes payables from shareholders US\$	Accumulated loss US\$	Other reserves US\$	Translation difference US\$	Total US\$		
Balance - 1 January 2007	332,508	14,288,867	(1,499,980)	2,545,498			15,666,893	2,867,265	18,534,158
Net profit for the year	-	-	-	2,555,372			2,555,372	125,943	2,681,315
Shares issued	1,548,584	83,590,413	-	-			85,138,997	-	85,138,997
Issue costs	-	(5,195,350)	-	-			(5,195,350)	-	(5,195,350)
Minority interest from subsidiaries	-	-	-	-			-	(2,239,155)	(2,239,155)
Payments for shares issued in 2006	-	-	1,499,980	-			1,499,980	-	1,499,980
At 31 December 2007/ 1 January 2008	1,881,092	92,683,930	-	5,100,870	-	-	99,665,892	754,053	100,419,945
Net loss for the year				(15,482,825)			(15,482,825)	1,791,363	(13,691,462)
Shares issued	402,207						402,207		402,207
Acquisition of minority interest							-	(109,000)	(109,000)
Directors' options					46,710		46,710		46,710
Translation to presentation currency						(2,091,777)	(2,091,777)	(800,906)	(2,892,683)
At 31 December 2008	2,283,299	92,683,930	-	(10,381,955)	46,710	(2,091,777)	82,540,207	1,635,510	84,175,717

The notes on pages 16 to 49 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2008

	Note	2008 US\$	2007 US\$
Operating activities			
Profit/(loss) before tax		(19,068,589)	4,980,887
Adjustments for:			
Depreciation of property, plant and equipment	14	98,105	85,526
Intangible assets impairment loss	8	1,282,736	-
Advances for investments impairment loss	8	1,909,818	-
Foreign exchange losses	6	36,259,708	-
Fair value gain on investment property		(25,665,532)	(7,700,602)
Other finance expenses	6	36,025	
Interest income	6,7	(1,466,371)	
Operating loss before working capital changes		(6,614,100)	(2,634,189)
Decrease in receivables	19	(4,096,713)	(19,714)
Decrease in advances to related parties		-	120,000
(Increase)/Decrease in prepayments and other current assets	19	11,736	(587,851)
Increase/(Decrease) in trade and other payables	22	106,265	(1,578,629)
Increase in payables due to related parties	24	568,469	137,822
Decrease in financial lease liabilities	20	(29,960)	-
Cash flows used in operating activities		(10,054,303)	(4,562,561)
Investing activities			
(Increase)/Decrease in prepayments under development contracts		6,768,919	(9,280,211)
Increase in advances for investments	18	(4,239,574)	(13,096,473)
Increase in payables to constructors	22	1,846,835	-
Additions to investment property	15,16	(31,063,334)	(6,674,584)
Additions to property, plant and equipment	14	(118,538)	(256,181)
Additions to intangible assets	17	-	(1,999,388)
Acquisition of / Changes in minority interest	27	(109,000)	(2,239,152)
Cash flows used in investing activities		(26,914,692)	(33,545,989)
Financing activities			
Proceeds from issue of share capital	10	402,207	81,443,629
Interest received	6	299,964	-
Net cash from financing activities		702,171	81,443,629
Effect of foreign exchange rates on cash and cash equivalents		(7,405,995)	-
Net increase in cash and cash equivalents		(43,672,819)	43,335,079
Cash and cash equivalents:			
At beginning of the year		43,708,552	373,473
At end of the year		35,733	43,708,552

The notes on pages 16 to 49 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****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 2008 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 Ukraine, especially in Kiev and around the major population centres of Ukraine.

As at 31 December 2008 the Group employed 17 people (31 December 2007:17)

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 reform 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. The most critical structural reforms that need to be implemented or continued include (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy, (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector) and (iii) reform of social benefits and pensions. An economic downturn may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****1. Incorporation and principal activities (continued)**

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 in the event of the current international crisis or due to adverse domestic developments, a failure by official creditors and of multilateral organisations such as the IMF, the EBRD, the World Bank and the EU to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves and have a material adverse effect on Ukrainian economy as a whole, and thus, on the Group's business, results of operations, financial condition and prospects.

More than 20 % of Ukrainian exports of goods currently go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on Russian exports of energy resources, accompanied by the increase of the price for natural gas by Russia, may adversely affect the pace of economic growth of Ukraine. Further, the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and modernisation of production facilities. However, there can be no assurance that this will take place.

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 Group 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 2008****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, results of operations, financial condition and prospects.

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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****1. Incorporation and principal activities (continued)**

- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Summary of significant accounting policies (continued)

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\$ 19,068,589 during the year ended 31 December 2008. Even though at 31 December 2008, the Group's total assets exceed its total liabilities by US\$ 84,175,717, the validity of the going concern basis is dependant on the Group's ability to obtain the necessary funding through new issue of shares or bank facilities in order to complete the development of properties so as to generate income. The actions taken by management to obtain the necessary funding have not yet been finalized. The future viability of the Group depends on these actions. The consolidated financial statements do not include any adjustments should the Group be unable to continue as going concern.

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 2008.

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

- | | | |
|------------|---|---|
| • IFRIC 12 | Service Concession Arrangements | Effective for annual periods beginning on or after 1 January 2008 |
| • IFRIC 13 | Customer loyalty programmes | Effective for annual periods beginning on or after 1 July 2008 |
| • IFRIC 14 | The limit on a Defined Benefit Asset, Minimum Funding Requirements (Interpretation to IAS 19) | Effective for annual periods beginning on or after 1 January 2008 |

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

- | | | |
|----------|---|---|
| • IAS 40 | Investment Property | Effective for annual periods beginning on or after 1 January 2009 |
| • IAS 16 | Property, Plant and Equipment (Treatment of property under construction as an investment property within the scope of IAS 40, that previously recognised in accordance to IAS 16) | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Summary of significant accounting policies (continued)

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

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> • IFRS 3 • IAS 27 | <p>Business Combinations
Consolidated and separate Financial statements
(Amendments of requirements and practice in respect of Partial acquisitions; Step acquisitions; Acquisition-related costs; Contingent consideration; transactions with non-controlling interests)</p> | <p>Effective for annual periods beginning on or after 1 July 2009.</p> |
| <ul style="list-style-type: none"> • IFRS 8 | <p>Operating segments
(Requirement of a “management approach” for segment information presentation)</p> | <p>Effective for annual periods beginning on or after 1 January 2009.</p> |
| <ul style="list-style-type: none"> • IAS 1 | <p>Presentation of Financial Statements
(Requirement of aggregation of financial statements on the basis of shared characteristics, introduction of statement of comprehensive income)</p> | <p>Effective for annual periods beginning on or after 1 January 2009</p> |
| <ul style="list-style-type: none"> • IAS 16 | <p>Property, Plant and Equipment
(Replacement of the term “net selling price” with “fair values less costs to sell” as to “recoverable amount”)</p> | <p>Effective for annual periods beginning on or after 1 January 2009</p> |
| <ul style="list-style-type: none"> • IAS 23 | <p>Borrowing costs
(The option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset will be removed)</p> | <p>Effective for annual periods beginning on or after 1 January 2009</p> |
| <ul style="list-style-type: none"> • IAS 36 | <p>Impairment of Assets
(Requirement of disclosure of estimates used to determine recoverable amount)</p> | <p>Effective for annual periods beginning on or after 1 January 2009</p> |
| <ul style="list-style-type: none"> • IAS 38 | <p>Intangible Assets
(Amendment of fair value measurement of an intangible assets acquired in a business combination that are not traded in active markets)</p> | <p>Effective for annual periods beginning on or after 1 January 2009</p> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Summary of significant accounting policies (continued)

Standards, Amendments and Interpretations that are not yet effective and not relevant for the Group's operations

- IFRS 1 First-time Adoption of IFRS Effective for annual periods beginning on or after 1 January 2009.
(Allowing first-time adopters to use a deemed cost of either fair value or carrying amount under previous accounting practice to measure the initial cost of investments)
- IFRS 2 Share Based Payments Effective for annual periods beginning on or after 1 January 2009.
(Clarification of the term “vesting conditions” and provision of the accounting treatment for non-vesting conditions and cancellations)
- IFRS 5 Non-current Assets Held for Sale and Discontinued operations Effective for annual periods beginning on or after 1 July 2009
(Assets and liabilities of a subsidiary should be classified held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale)
- IAS 19 Employee benefits Effective for annual periods beginning on or after 1 January 2009
(Replacement of the term “fall due”, guidance on contingent liabilities, etc.)
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance Effective for annual periods beginning on or after 1 January 2009
(Concerns government loans with a below-market rate of interest)
- IAS 29 Reporting in Hyperinflationary Economies Effective for annual periods beginning on or after 1 January 2009
(Amendment to description of measurement basis in financial statements)
- IAS 39 Financial instruments: Recognition and Measurement Effective for annual periods beginning on or after 1 January 2009
(Reclassification of derivatives into or out of the classification of at fair value through profit and loss)
- IAS 41 Agriculture Effective for annual periods beginning on or after 1 January 2009
(Permission to applying pre-tax or post-tax rate under valuation methodology used to determine fair value)
- IFRIC 15 Agreements for the Construction of Real Estate Effective for annual periods beginning on or after 1 January 2009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Summary of significant accounting policies (continued)

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation Effective for annual periods beginning on or after 1 October 2008
- IFRIC 17 Distributions of Non-cash Assets to Owners Effective for annual periods beginning on or after 1 July 2009
- IFRIC 18 Transfers of Assets from Customers Effective for annual periods beginning on or after 1 July 2009

Basis of consolidation

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

Name	Country of incorporation	Holding %	
		as at 31.12.2007	as at 31.12.2008
Aisi Capital Limited	Cyprus	100	100
LLC Aisi Ukraine	Ukraine	100	100
LLC Aisi Brovary	Ukraine	100	100
LLC Almaz-pres-Ukrayina	Ukraine	51	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

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

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

The 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

2. Summary of significant accounting policies (continued)

such consolidated financial information to be presented in accordance with IFRSs.

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

Currency	Average		31 December	
	2008	2007	2008	2007
US\$	5,269	5,050	7,700	5,050

The Group's financial statements consolidate the financial statements of the Group and all its subsidiary undertakings for the year ended 31 December 2008.

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

Where necessary, adjustments are made to the consolidated financial information of subsidiaries to bring the accounting policies used 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 2008****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 income statement.

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

Finance costs

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 translationFunctional 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, Ukrainian Hryvnia, is the functional currency for all the Group's entities, except for the Company and its subsidiary Aisi Capital Ltd for which 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 income statement 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 balance sheet date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)**

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

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

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

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	33.33
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 balance sheet date.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)****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 balance sheet date, the company 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 income statement, 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 income statement 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 income statement 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 income statement.

Land held under operating lease is classified and accounted for as investment property when the rest of definition is met.

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 development. As such, no fair value gains were recognised in the income statement 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 income statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)**

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

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

Initial measurement and recognition

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, on the commencement of an operating lease to third party. 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 income statement in the period in which they arise.

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

Basis of valuation

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

The valuations have been carried out by 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)**

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 exits at the date of valuation; or

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)**

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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)**

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 we have 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)**

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. All rents are exclusive of VAT.

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 company considers these intangible assets as the assets with indefinite useful lives.

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

Leased assets

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement, 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 income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount payable to the lessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)****Financial instruments**

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

Trade 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 income statement 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

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****2. Summary of significant accounting policies (continued)****Earnings and Net Assets Value per share**

The Group presents basic and diluted earnings per share (EPS) and net assets and adjusted net asset value per share (NAV) for its ordinary shares. Basic EPS and NAV amounts are calculated by dividing net profit for the year, and net assets value as of year end, attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing net profit for the year, as of year end, attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the potentially dilutive ordinary shares into ordinary shares. Adjusted NAV is calculated by dividing the net assets value of the year end after certain adjustment as per Note 13 by the weighted average number of ordinary shares outstanding during the year.

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 balance sheet date.

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, 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.

Forecast for liquidity reserve as at 31 December 2008, based on the existing project portfolio of the Group, is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2008

3. Financial risk management (continued)

	<u>2009-2010</u>
Opening balance for the period	<u>35,733</u>
Operating proceeds	3,796,774
Investment proceeds	11,200,000
Investment outflows	(20,083,664)
Operating and administrative outflows	(6,807,520)
Financing inflows	<u>18,500,000</u>
Closing balance for the period	<u>6,641,323</u>

The Group's management monitors liquidity position on a daily basis. The majority of financial assets and liabilities of the Group as at 31 December 2008 are current. Non-current part of accounts payable is the guarantee reserve created under construction contracts in the amount of US\$ 1,228,902 that has about two years maturity.

(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 31 December 2008 is presented below

As at 31 December 2008	Currency		
	UAH	US\$	Total
<i>US\$ equivalent</i>			
Trade and other receivables	161,642	1,489,232	1,650,874
Cash and cash equivalents	22,160	13,573	35,733
Trade and other payables	2,017,500	2,212,108	4,229,608

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.

Balances of trade and other receivables are no substantially sensitive to movement in UAH/US dollar exchange rate because most part of these financial instruments are denominated in US dollars.

Balances of financial liabilities are more sensitive to currency rate fluctuations. If at 31 December 2008 the Ukrainian Hryvnia had weakened/strengthened by 10% against the US dollar with all other variables held constant, the closing balance of financial liabilities would decrease/increase by (183,409)/224,166 US\$ respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

3. Financial risk management (continued)

(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) Price risk

The Group is exposed to property rentals and capitalisation yield risk.

As at 31 December 2008, if the rental price had changed by 5% or the capitalization yield had increased/decreased by 1%, with all other variables held constant, the fair value of the commercial projects would have been as follows:

Commercial property

Project	Rental price		Capitalisation yield		Carrying value as at 31 December 2008
	-5%	5%	-1%	1%	
Brovary Logistics Center	25,244,211	29,282,739	31,238,088	23,904,946	27,267,000
Bela Logistics park	11,614,240	17,567,865	18,111,024	11,511,709	14,600,000

Provided that rental price of commercial property decrease by 5%, that may lead to decrease of carrying value of investment property under construction at 31 December 2008 by 11.97% or US\$ 5,011,480. The increase of rental price by 5% may lead to increase of carrying value of investment property under construction at 31 December 2008 by 11.91% or US\$ 4,986,359.

The decrease of capitalisation yield by 1% may result in increase of carrying value of investment property under construction at 31 December 2008 by 17.88% or US\$ 7,485,820. The increase of capitalisation yield by 1% may result into decrease of carrying value of investment property under construction by 15.41% or US\$ 6,451,704.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

3. Financial risk management (continued)

As at 31 December, if the sales price had changed by 5%, with all other variables held constant, the fair value of the residential projects would have been as follows:

Residential property

Project	Sales price		Carrying value as at 31 December 2008
	-5%	5%	
Tsymliansky Lane	3,233,135	4,444,892	3,839,000
Kyanyivsky Lane	17,036,042	21,073,641	19,055,000

Provided that sales price of residential property had decreased by 5%, it may lead to decrease of carrying value of investment property at 31 December 2008 by 11.47% or US\$ 2,625,942. The increase of sales price of residential property by 5% may lead to increase of carrying value of investment property at 31 December 2008 by 11.47% or US\$ 2,624,533.

(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 balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**Year ended 31 December 2008****4. Critical accounting estimates and judgements**

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

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

- **Income taxes**

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

- **Fair value of investment property**

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

- **Impairment of intangible 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 2008

5. Administration expenses

	2008	2007
	US\$	US\$
Management fee	2,516,029	1,751,944
Audit, Accounting and Administration fees	604,485	465,336
Consulting fees	577,274	495,848
Legal fees	545,406	159,743
Salaries and Wages	505,753	215,199
Travelling expenses	421,530	505,168
Office expenses	331,113	349,844
Public group expenses	326,212	191,247
Directors remuneration	310,670	139,841
Operating lease expenses	212,303	204,792
Taxes and duties	187,818	66,922
Marketing fees	116,142	2,938
Transaction costs	99,207	96,645
Depreciation	98,105	85,526
Litigation recovery	-	(230,000)
Other expenses	76,001	75,069
	6,928,048	4,576,062

6. Finance costs, net

	2008	2007
	US\$	US\$
Foreign exchange losses, net	36,259,708	158,521
Finance charges and commissions	782,409	-
Bank interest income	(299,964)	-
Other finance expenses	36,025	-
	36,778,178	158,521

7. Income from investing activities, net

	2008	2007
	US\$	US\$
Profit from sale of investments in subsidiaries	-	1,210,492
Interest income	1,166,406	695,072
	1,166,406	1,905,564

The profit from sale of investment in subsidiary in 2007 arose from the sale of LLC Aisi Taurus.

Interest income –related to interest accrued on outstanding advances under investments.

8. Other (income)/expense, net

	2008	2007
	US\$	US\$
Advances for investments - impairment loss	1,909,818	-
Intangible assets - impairment loss	1,282,736	-
Other income, net	(657,972)	(2,984)
	2,534,582	(2,984)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

8. Other (income)/expense, net (continued)

The Group decided to provide for impairment against the advances for investments and intangible assets as at 31 December 2008. See the Note 18 and Note 17 respectively.

9. Tax

	2008	2007
	US\$	US\$
Income tax - current year	749,472	233,544
Defence contribution	29,385	76,356
Deferred tax - charge/ (credit) (Note 21)	(6,155,984)	1,989,672
Charge for the year	(5,377,127)	2,299,572

The income tax rate for the Company's Ukrainian subsidiaries is 25% for the year ended 31 December 2008 (31 December 2007:25%). The corporate tax that is applied to the qualifying income of the Company and its Cypriot subsidiaries is 10% for the year ended 31 December 2008 (31 December 2007 10%)

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

	2008	2007
	US\$	US\$
Profit before tax	(19,068,589)	4,980,887
Tax calculated at the applicable tax rates	(5,268,580)	1,245,222
Deferred tax assets not recognised	9,243,600	127,006
Reversal of deferred tax related to investment property	(6,155,984)	-
Defence contribution current year	29,385	76,356
Income on revaluation not subject to tax	(6,416,383)	-
Expenses not recognized for tax purposes	2,284,299	638,241
Other movements in deferred tax	906,536	212,747
Tax charge	(5,377,127)	2,299,572

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 intentions 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

10. Share capital

	2008	2008	2008	2007	2007	2007
	Number of shares	Share Capital US\$	Share Premium US\$	Number of shares	Share Capital US\$	Share Premium US\$
Authorised						
Ordinary shares of CY£0.01 each converted into EURO.01 each	875,000,000			875,000,000		
Issued and fully paid						
At 1 January	166,191,829	1,881,092	92,683,930	15,024,981	332,508	14,288,867
Issue of shares	26,003,146	402,207	-	94,879,365	1,548,584	78,395,063
Conversion of shares	-	-	-	56,287,483	-	-
At 31 December	192,194,975	2,283,299	92,683,930	166,191,829	1,881,092	92,683,930

On 27 June 2008 the issued share capital was increased by 402,207 US\$ as the result of the exercise of warrants assigned to the Company's Founding Shareholders (see Note 12):

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

11. Stock based compensation for directors

Share Option for Directors

On 25 July, 2007, the Company adopted a share option scheme for each of the Directors as at that date. Under the Option scheme, which was approved by the members on 31 March 2008, each director is entitled to subscribe for 263,158 Ordinary shares exercisable as set out below:

	Exercise Price 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 GBP	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

11. Stock based compensation for directors (continued)

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 balance sheet as at 31 December 2008 in the amount of 46,710.

12. Shareholder Warrants

Founding Shareholder Warrants

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

Additional 26,003,146 ordinary shares were issued on 27 June 2008 in relation to the exercise of these warrants at par value of Euro 0.01 per share.

Tudor BVI Global Portfolio Ltd Warrants

The Company granted to a shareholder, Tudor BVI Global Portfolio Ltd, warrants to subscribe for 10,937,500 Ordinary shares at the exercise price of US\$0.64 per share.

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

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

The above warrants have expired since they were not exercised by 30 September 2008

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

Weighted average number of ordinary shares

	<i>2008</i>	<i>2007</i>
	<i>Number</i>	<i>Number</i>
Issued ordinary share capital at 1 January	166,191,829	26,293,717
Ordinary shares additionally issued	26,003,146	139,898,112
Issued ordinary shares capital at 31 December	192,194,975	166,191,829
Weighted average number of ordinary shares	179,513,989	119,813,838
Diluted weighted number of ordinary shares	179,513,989	119,813,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

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

Basic, diluted and adjusted earnings per share

	<i>2008 Profit after tax US\$</i>	<i>2008 Earnings per share US\$</i>	<i>2007 Profit after tax US\$</i>	<i>2007 Earnings per share US\$</i>
Basic	<u>(15,482,825)</u>	<u>(0.09)</u>	<u>2,555,372</u>	<u>0.02</u>
Diluted	<u>(15,482,825)</u>	<u>(0.09)</u>	<u>2,555,372</u>	<u>0.02</u>
Market value of investment property under construction	-	-	9,427,865	0.08
Deferred tax on revaluation of investment properties	-	-	6,423,313	0.05
Minority interest, net	-	-	600,165	0.00
Adjusted	<u>(15,482,825)</u>	<u>(0.09)</u>	<u>19,006,715</u>	<u>0.16</u>

The adjustments above have been made only for purposes of calculation of the earnings of 2007 per share. They reflect recognition of deferred tax liability on investment property revaluation and recognition of investment property under construction at fair value as at 31 December 2007.

Net assets per share

	<i>2008 Net assets</i>	<i>2008 Number of shares</i>	<i>2008 Net assets per share</i>	<i>2007 Net assets</i>	<i>2007 Number of shares</i>	<i>2007 Net assets per share</i>
Basic	<u>82,540,207</u>	<u>192,194,975</u>	<u>0.43</u>	<u>99,665,892</u>	<u>166,191,829</u>	<u>0.60</u>
Diluted	<u>82,540,207</u>	<u>192,194,975</u>	<u>0.43</u>	<u>99,665,892</u>	<u>166,191,829</u>	<u>0.60</u>
Deferred tax on revaluation of investment properties	-	-	-	6,423,313	166,191,829	0.04
Market value of investment property under construction	-	-	-	9,427,865	166,191,829	0.06
Minority interest, net	-	-	-	600,165	166,191,829	0.00
Adjusted	<u>82,540,207</u>	<u>192,194,975</u>	<u>0.43</u>	<u>116,117,235</u>	<u>166,191,829</u>	<u>0.70</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

14. Property, plant and equipment

	Furniture, fixtures and equipment US\$	Software and hardware US\$	Motor vehicles US\$	Leasehold US\$	Citylights US\$	Total US\$
Cost:						
At 1 January 2008	70,405	39,618	143,443	42,017	99,542	395,025
Additions	42,181	9,385	18,895	-	48,077	118,538
Translation difference	(37,546)	(16,598)	(55,331)	(14,461)	(49,434)	(173,370)
At 31 December 2008	75,040	32,405	107,007	27,556	98,185	340,193
Accumulated depreciation:						
At 1 January 2008	(18,324)	(9,905)	(34,554)	(7,003)	(29,863)	(99,649)
Charge for the year	(14,397)	(15,245)	(35,879)	(6,711)	(25,873)	(98,105)
Translation difference	10,851	8,221	23,218	4,529	18,445	65,264
At 31 December 2008	(21,870)	(16,929)	(47,215)	(9,185)	(37,291)	(132,490)
Net book amount:						
At 31 December 2007	52,081	29,713	108,889	35,014	69,679	295,376
At 31 December 2008	53,170	15,476	59,792	18,371	60,894	207,703

15. Investment property under construction

	2008 US\$	2007 US\$
At 1 January	6,722,135	-
Transfer from investment properties	10,800,000	6,124,000
Investment property related costs	30,186,227	598,135
Revaluation gains on investment property	14,200,904	-
Translation difference	(20,042,266)	-
At 31 December	<u>41,867,000</u>	<u>6,722,135</u>

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 development. As such, no fair value gains were recognised in the income statement 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 income statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

16. Investment property

	2008	2007
	US\$	US\$
At 1 January	32,830,000	25,176,948
Additions	-	6,000,001
Disposals	-	(2,413,334)
Transfer to property under construction	(10,800,000)	(6,124,000)
Investment property related costs	877,107	2,489,783
Revaluation gains on investment property	11,464,628	7,700,602
Translation difference	(11,477,735)	-
At 31 December	22,894,000	32,830,000

On acquisitions dates and as at December 31, 2008, the property was 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.

In October 2007 the Group obtained the construction permit for Brovary Logistics Center and in April 2008 the Group obtained the construction permit for Bela Logistics Park that were reclassified according to IAS 40 from Investment Property to Investment Property under construction respectively in 2007 and 2008.

17. Intangible assets

	Advertising rights	Total
	US\$	US\$
Cost:		
At 1 January 2008	1,999,388	1,999,388
Translation difference	(716,652)	-
Impairment provision	(1,282,736)	-
Net book amount:		
At 31 December 2007	1,999,388	1,999,388
At 31 December 2008	-	1,999,388

The test of impairment performed by the management as at 31 December 2008 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 2008

18. Advances for investments

	2008 US\$	2007 US\$
Advances for investments	17,336,047	13,096,473
Impairment provision	(1,909,818)	-
	<u>15,426,229</u>	<u>13,096,473</u>

As at 31 December 2008 the Group has decided to provide for impairment provision against the advances for investments in the amount of US\$ 1,909,818 for 100%. These advances were granted to several companies and an individual in respect of land plots.

19. Accounts receivable

	2008 US\$	2007 US\$
VAT and other tax receivable	4,721,259	604,832
Interests and other receivables	1,457,204	-
Prepayments and other current assets	193,670	205,406
Trade receivables	-	19,714
	<u>6,372,133</u>	<u>829,952</u>

VAT receivable is the amount of VAT credit that under certain circumstances may be recovered from the state budget in cash or utilized against VAT liability accrued on the respective income generated by the Group companies in the future.

As at 31 December 2008 the Company has accrued interest on the outstanding balance of advances made in 2007 and 2008 for investments in property (see Note 18)

20. Obligations under finance leases

	Minimum lease payments 2008 US\$	Interest 2008 US\$	Principal 2008 US\$	Minimum lease payments 2007 US\$	Interest 2007 US\$	Principal 2007 US\$
Less than one year	42,184	8,948	33,236	42,936	19,241	23,695
Between two and five years	59,485	6,738	52,747	103,893	9,438	94,455
	<u>101,669</u>	<u>15,686</u>	<u>85,983</u>	<u>146,829</u>	<u>28,679</u>	<u>118,150</u>

All lease obligations are denominated in United States Dollars.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2008

21. Deferred tax

The movement on the deferred tax account is as follows:

Deferred tax liability

	Fair value gains on investment property US\$	Total US\$
At 1 January 2007	<u>4,433,642</u>	<u>4,433,642</u>
Charged / (credited) to:		
Income statement (Note 9)	1,989,672	1,989,672
At 31 December 2007/ 1 January 2008	<u>6,423,314</u>	<u>6,423,314</u>
Charged / (credited) to:		
Income statement (Note 9)	(6,155,984)	(6,155,984)
Translation difference	(267,330)	(267,330)
At 31 December 2008	<u>-</u>	<u>-</u>

22. Accounts payable

	2008 US\$	2007 US\$
Payables to related companies (Note 24)	1,288,126	746,645
Guarantee reserve on construction works, non-current	1,018,414	-
Guarantee reserve on construction works, current part	210,488	-
Payables for construction	617,933	-
Audit and accounting fees due	214,649	252,840
VAT and other taxes payable	92,151	167,775
Accruals	57,064	240,571
Other payables	730,783	300,208
	<u>4,229,608</u>	<u>1,708,039</u>

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 10% of the amount of each accepted act of works and is due for payment by the end of the definite term as per agreement between the respective subsidiary of the Group and the general contractor.

23. Current tax liabilities

	2008 US\$	2007 US\$
Income tax	822,782	-
Special contribution for defence	-	92,639
	<u>822,782</u>	<u>92,639</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

24. Related party transactions

The following transactions were carried out with related parties:

Management fees

	2008	2007
	US\$	US\$
Aisi Realty Capital LLC	<u>2,516,029</u>	<u>1,751,944</u>
	<u>2,516,029</u>	<u>1,751,944</u>

The management fee is calculated at the rate of 2,5% on the committed capital. Two principals of Aisi Realty Capital LLC are non-executive directors of Aisi Realty Public Limited.

Payables to related parties (Note 22)

<u>Name</u>	<u>Nature of transactions</u>	2008	2007
		US\$	US\$
Aisi Realty Capital LLC	Trade	1,253,607	233,400
Howard Kelham		34,519	-
Former shareholders of the acquired companies		<u>-</u>	<u>513,245</u>
		<u>1,288,126</u>	<u>746,645</u>

25. Contingencies

As at 31 December 2008 the Group was not a party to any litigation.

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. Furthermore, in order to extend the lease agreement all necessary permissions and consents for development have to be presented to the authorities. However the management believes that the possibility of such action is remote and was taken only under limited circumstances in the past. In undertaking the valuations reported herein, DTZ Kiev have made the assumption that no such circumstances will arise to permit the City to rescind the land lease or not to grant a renewal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

26. Commitments

Operating lease commitments

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

	2008	2007
	US\$	US\$
Within one year	81,953	310,968
Between one and five years	220,424	441,185
After five years	1,894,586	42,945
	<u>2,196,963</u>	<u>795,098</u>

Operating 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 2008. These agreements resulted in capital commitments amounting to US\$ 56,202,699 as at 31 December 2008.

27. Business combinations

During the year 2008 the Group acquired an additional 4% of Almaz-pres-Ukrayina LLC (Tsymliansky project) for US\$ 109,000 that in all material aspects reflects the 4% share of net assets of that company on the acquisition date.

28. Post balance sheet events

The appraisal of investment property as at 31 December 2008 was performed by DTZ and was completed in February 2009. The fair values of the investment property reflect market conditions at the balance sheet date. These property appraisals are performed using “Red Book” standards, and are also based on conservative and realistic assumptions agreed by appraisers and management. Since the time that these property appraisals were performed, Directors and management have decided to adopt an even more conservative policy to property valuations which will reflect and anticipate the evolving changes in the Ukrainian property market and in the Group’s business. The valuations therefore would have been lower if the appraisals were done at the date of approval of the financial statements since market conditions have deteriorated further since the balance sheet date. The updated approach will be reflected in the next appraisals which DTZ will conduct for the period ending 30 June 2009 and which will be reflected in the Company’s financial statements for the same period.

In view of continued market uncertainty, the Group has decided to focus on the development and completion of its core project – Brovary Logistics Centre and phased development and completion of Bela Logistics Park.

In January 2009 the Group entered into a loan facility agreement with the European Bank for Reconstruction and Development (“EBRD”) for US\$34.4m of project finance for Brovary Logistics Centre. The EBRD financing will comprise an US\$34.4m senior loan of which at least US\$17.20m may be syndicated to commercial banks. EBRD has agreed to release immediately \$13.25 m without the participation of a syndicate bank provided all equity requirements and Condition Precedents are met.

In January 2009 Aisi Realty PLC founded a 100% subsidiary Aisi Logistics Limited, incorporated in Cyprus, to carry out and facilitate financing to the Group’s projects in logistics.