

**TMM Real Estate Development plc**

Unaudited interim condensed  
consolidated financial statements

*As at 30 June 2010*

## CONTENT

|   |     |
|---|-----|
| Board of directors and professional advisors.....                             | (a) |
| Report on review of interim condensed consolidated financial statements ..... | (i) |
| Interim Consolidated statement of comprehensive income .....                  | 1   |
| Interim Consolidated statement of financial position .....                    | 2   |
| Interim Consolidated statement of changes in equity .....                     | 3   |
| Interim Consolidated statement of changes in equity .....                     | 4   |
| Interim Consolidated cash flow statement.....                                 | 5   |
| Notes to the Interim Condensed Consolidated financial statements .....        | 6   |
| 1. Corporate information.....   | 6   |
| 2. Basis of preparation and accounting policies .....                         | 7   |
| 3. Seasonality of operations.....   | 10  |
| 4. Revenue .....  | 11  |
| 5. Cost of revenue .....  | 11  |
| 6. Operating segment information.....   | 11  |
| 7. Income tax.....  | 13  |
| 8. Property, plant and equipment .....  | 14  |
| 9. Investment properties.....   | 16  |
| 10. Inventories .....   | 17  |
| 11. Trade and other receivables.....  | 17  |
| 12. Interest-bearing loans and borrowings.....                                | 17  |
| 13. Advances received.....  | 18  |
| 14. Related party disclosure .....  | 18  |
| 15. Contingencies and commitments.....  | 19  |
| 16. Subsequent events .....   | 19  |

## **BOARD OF DIRECTORS AND PROFESSIONAL ADVISORS**

### **BOARD OF DIRECTORS**

Eleni Chrysostomides  
Georgia Chrysostomides  
Anna Rossides  
Mykola Tolmachov  
Larysa Chyvurina

### **SECRETARY**

Inter Jura CY (Services) Limited

### **INDEPENDENT AUDITORS**

Ernst & Young Cyprus Limited  
Certified Public Accountants and Registered Auditors  
36 Byron Avenue  
P.O. Box 21656  
1511 Nicosia  
Cyprus

### **BANKERS**

Bank of Cyprus Public Company Ltd  
JSC "UniCredit bank"  
JSC "State savings bank of Ukraine"  
PJSC "Bank Credit Agricole"  
JSC "ING Bank Ukraine"

### **REGISTERED OFFICE**

1, Lampousas Str.,  
1095, Nicosia,  
Cyprus

## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### To the Members of TMM Real Estate Development plc

#### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of TMM Real Estate Development plc ('the Company') and its subsidiaries ('the Group'), comprising the interim consolidated statement of financial position as at 30 June 2010 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

#### Scope of review

Except as explained in the following paragraph, we conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Basis for Qualified Conclusion

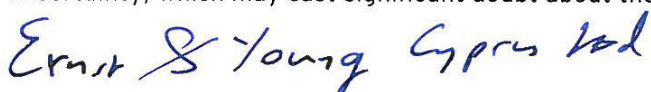
We were unable to obtain sufficient audit evidence in respect of certain cash transactions carried prior to 1 January 2008. Since these transactions enter into the determination of the balances as at 30 June 2010 and 31 December 2009 and the results of operations for the six-month periods ended 30 June 2010 and 2009, we were unable to complete our review procedures of property, plant and equipment of USD 1,725 thousand and USD 1,724 thousand, foreign currency translation reserve of USD 951 thousand and USD 970 thousand as at 30 June 2010 and 31 December 2009 respectively, cost of revenue of USD 17 and USD 3,340 thousand for the six-month periods ended 30 June 2010 and 2009 respectively, included in the interim condensed consolidated financial statements.

#### Qualified Conclusion

Based on our review, except for the effect on the interim condensed consolidated financial statements of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and the requirements of the Cyprus Companies Law, Cap.113.

#### Emphasis of Matter

We draw attention to Note 2 in the interim condensed consolidated financial statements, which describes incomplete negotiations of the payment term of its EUR credit line with its existing lender, and deterioration in the Group's operating results in 2009, which is continuing in 2010, that may result in the Group's inability to realize its assets and discharge its liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern.

A handwritten signature in blue ink that reads 'Ernst & Young Cyprus Ltd'.

Ernst & Young Cyprus Limited  
Certified Public Accountants and Registered Auditors

Nicosia, Cyprus  
29 October 2010

**INTERIM CONSOLIDATED STATEMENT OF COMPEHENSIVE INCOME**  
**for the six-month period ended 30 June 2010**  
*(in thousands of US dollars, unless otherwise indicated)*

|   | Notes | <i>The six-month<br/>period ended 30<br/>June 2010</i><br><u>Unaudited</u> | <i>The six-month<br/>period ended 30<br/>June 2009</i><br><u>Unaudited</u> |
|---|-------|--|--|
| Revenue   | 4     | 13,397   | 22,518   |
| Cost of revenue   | 5     | (8,246)  | (13,147)   |
| <b>Gross profit</b>   |       | <u>5,151</u>   | <u>9,371</u>   |
| Change in fair value of investment properties                       |       | 1,171  | (16,510)   |
| Other operating income  |       | 2,033  | 628  |
| General and administrative expenses                                 |       | (2,500)  | (2,424)  |
| Selling and distribution expenses                                   |       | (335)  | (189)  |
| Other operating expenses  |       | (2,513)  | (9,275)  |
| <b>Operating profit / (loss)</b>                                    |       | <u>3,007</u>   | <u>(18,399)</u>  |
| Share in profits / (losses) of associates                           |       | 115  | (501)  |
| Finance income  |       | 158  | 66   |
| Finance costs   |       | (823)  | (1,149)  |
| Foreign exchange gain, net  |       | 5,212  | 1,923  |
| <b>Profit / (loss) before tax</b>                                   |       | <u>7,669</u>   | <u>(18,060)</u>  |
| Income tax (expense) / benefit                                      | 7     | (2,549)  | 3,425  |
| <b>Profit / (loss) for the year</b>                                 |       | <u>5,120</u>   | <u>(14,635)</u>  |
| Attributable to:  |       |  |  |
| Equity holders of the parent  |       | 5,146  | (14,622)   |
| Non-controlling interests   |       | (26)   | (13)   |
|   |       | <u>5,120</u>   | <u>(14,635)</u>  |
| Weighted average basic and diluted shares (in thousands of shares)  |       | 50,754   | 50,767   |
| Basic and diluted earnings per share (in US dollars)                |       | <u>0.10</u>  | <u>(0.29)</u>  |
| <b>Other comprehensive loss</b>                                     |       |  |  |
| Exchange differences on translation to presentation currency        |       | 664  | 1,776  |
| Revaluation of freehold buildings                                   | 8     | (1,531)  | (22,991)   |
| Income tax effect   |       | 383  | 5,748  |
|   |       | <u>(1,148)</u>   | <u>(17,243)</u>  |
| <b>Other comprehensive loss for the year, net of tax</b>            |       | <u>(484)</u>   | <u>(15,467)</u>  |
| <b>Total comprehensive income / (loss) for the year, net of tax</b> |       | <u>4,636</u>   | <u>(30,102)</u>  |
| Attributable to:  |       |  |  |
| Equity holders of the parent  |       | 4,686  | (29,738)   |
| Non-controlling interests   |       | (50)   | (364)  |
|   |       | <u>4,636</u>   | <u>(30,102)</u>  |

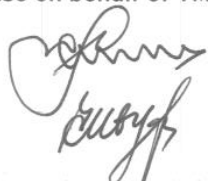
*The accompanying notes form an integral part of the interim condensed consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 30 June 2010**  
*(in thousands of US dollars, unless otherwise indicated)*

|  |       | 30 June 2010          | 31 December 2009      |
|--|-------|-----------------------|-----------------------|
|  | Notes | Unaudited             | Audited               |
| <b>ASSETS</b>  |       |                       |                       |
| <b>Non-current assets</b>                                  |       |                       |                       |
| Property, plant and equipment                              | 8     | 92,530                | 93,553                |
| Intangible assets  |       | 541                   | 589                   |
| Investment properties                                      | 9     | 69,922                | 68,052                |
| Investments in associates                                  |       | 4,840                 | 4,678                 |
| Property development rights and costs                      |       | 35,967                | 34,960                |
|  |       | <u>203,800</u>        | <u>201,832</u>        |
| <b>Current assets</b>                                      |       |                       |                       |
| Inventories  | 10    | 151,752               | 123,968               |
| Trade and other receivables                                | 11    | 7,335                 | 5,433                 |
| Prepayments  |       | 8,225                 | 18,579                |
| Prepaid income tax   |       | 19                    | 20                    |
| Taxes recoverable, other than income tax                   |       | 7,231                 | 5,589                 |
| Cash and short-term deposits                               |       | 861                   | 1,344                 |
|  |       | <u>175,423</u>        | <u>154,933</u>        |
| <b>TOTAL ASSETS</b>  |       | <u><b>379,223</b></u> | <u><b>356,765</b></u> |
| <b>EQUITY AND LIABILITIES</b>                              |       |                       |                       |
| <b>Equity</b>  |       |                       |                       |
| Share capital  |       | 508                   | 508                   |
| Share premium  |       | 98,569                | 98,569                |
| Additional paid-in capital                                 |       | 2,592                 | 2,592                 |
| Revaluation reserve  |       | 58,873                | 60,151                |
| Retained earnings  |       | 87,669                | 82,366                |
| Translation reserve  |       | (87,829)              | (88,490)              |
| <b>Equity attributable to equity holders of the parent</b> |       | <u>160,382</u>        | <u>155,696</u>        |
| Non-controlling interests                                  |       | 360                   | 410                   |
| <b>Total equity</b>  |       | <u>160,742</u>        | <u>156,106</u>        |
| <b>Non-current liabilities</b>                             |       |                       |                       |
| Interest-bearing loans and borrowings                      | 12    | 27,979                | 62,222                |
| Finance lease liability                                    |       | 2,727                 | 4,228                 |
| Deferred tax liability                                     |       | 33,422                | 30,939                |
|  |       | <u>64,128</u>         | <u>97,389</u>         |
| <b>Current liabilities</b>                                 |       |                       |                       |
| Trade and other payables                                   |       | 9,685                 | 19,091                |
| Interest-bearing loans and borrowings                      | 12    | 76,907                | 22,425                |
| Finance lease liability                                    |       | 6,753                 | 6,782                 |
| Advances received  | 13    | 59,754                | 53,782                |
| Taxes payable, other than income tax                       |       | 1,254                 | 1,190                 |
|  |       | <u>154,353</u>        | <u>103,270</u>        |
| <b>TOTAL LIABILITIES</b>                                   |       | <u>218,481</u>        | <u>200,659</u>        |
| <b>TOTAL EQUITY AND LIABILITIES</b>                        |       | <u><b>379,223</b></u> | <u><b>356,765</b></u> |

Signed and authorised for release on behalf of TMM Real Estate Development plc on 29 October 2010:

Director



Mykola Tolmachov

Director

Larysa Chyvurina

*The accompanying notes form an integral part of the interim condensed consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six-month period ended 30 June 2010**  
*(in thousands of US dollars, unless otherwise indicated)*

|  | Attributable to equity holders of the parent |               |                            |                     |                   |                     | Non-controlling interests | Total equity |         |
|--|--|---------------|----------------------------|---------------------|-------------------|---------------------|---------------------------|--------------|---------|
|  | Share capital                                | Share premium | Additional paid-in capital | Revaluation reserve | Retained earnings | Translation reserve |                           |              | Total   |
| Balance at 1 January 2010 (audited)              | 508  | 98,569        | 2,592                      | 60,151              | 82,366            | (88,490)            | 155,696                   | 410          | 156,106 |
| Profit for the period                            | -  | -             | -                          | -                   | 5,146             | -                   | 5,146                     | (26)         | 5,120   |
| Other comprehensive income/(loss)                | -  | -             | -                          | (1,121)             | -                 | 661                 | (460)                     | (24)         | (484)   |
| Total comprehensive income/(loss) for the period | -  | -             | -                          | (1,121)             | 5,146             | 661                 | 4,686                     | (50)         | 4,636   |
| Transfer of revaluation reserve, net of taxes    | -  | -             | -                          | (157)               | 157               | -                   | -                         | -            | -       |
| Balance at 30 June 2010 (unaudited)              | 508  | 98,569        | 2,592                      | 58,873              | 87,669            | (87,829)            | 160,382                   | 360          | 160,742 |

*The accompanying notes form an integral part of the interim condensed consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the six-month period ended 30 June 2009**  
*(in thousands of US dollars, unless otherwise indicated)*

|  | Attributable to equity holders of the parent |               |                            |                     |                   |                     |          |                           |              |
|--|--|---------------|----------------------------|---------------------|-------------------|---------------------|----------|---------------------------|--------------|
|  | Share capital                                | Share premium | Additional paid-in capital | Revaluation reserve | Retained earnings | Translation reserve | Total    | Non-controlling interests | Total equity |
| Balance at 1 January 2009 (audited)              | 510  | 98,552        | 2,592                      | 80,530              | 96,128            | (82,197)            | 196,115  | 1,267                     | 197,382      |
| Loss for the period                              | -  | -             | -                          | -                   | (14,622)          | -                   | (14,622) | (13)                      | (14,635)     |
| Other comprehensive income/(loss)                | -  | -             | -                          | (16,882)            | -                 | 1,766               | (15,116) | (351)                     | (15,467)     |
| Total comprehensive income/(loss) for the period | -  | -             | -                          | (16,882)            | (14,622)          | 1,766               | (29,738) | (364)                     | (30,102)     |
| Transfer of revaluation reserve, net of taxes    | -  | -             | -                          | (462)               | 462               | -                   | -        | -                         | -            |
| Purchase of treasury shares                      | (3)  | (36)          | -                          | -                   | -                 | -                   | (39)     | -                         | (39)         |
| Balance at 30 June 2009 (unaudited)              | 507  | 98,516        | 2,592                      | 63,186              | 81,968            | (80,431)            | 166,338  | 903                       | 167,241      |

*The accompanying notes form an integral part of the interim condensed consolidated financial statements*



**INTERIM CONSOLIDATED CASH FLOW STATEMENT**  
**for the six-month period ended 30 June 2010**  
*(in thousands of US dollars, unless otherwise indicated)*

|  |       | 2010      | 2009      |
|--|-------|-----------|-----------|
|  | Notes | Unaudited | Unaudited |
| Operating activities   |       |           |           |
| Profit / (loss) before tax   |       | 7,669     | (18,060)  |
| Non-cash adjustments to reconcile profit / (loss) before tax to net cash flows       |       |           |           |
| Revaluation of investment properties   | 9     | (1,171)   | 16,510    |
| Depreciation and amortisation  |       | 590       | 662       |
| (Reversal of impairment)/impairment of property, plant and equipment, net            | 8     | (1,264)   | 5,557     |
| (Gain) / loss on disposal of property, plant and equipment and investment properties |       | (28)      | 193       |
| Share in (profits) / losses of associates  |       | (115)     | 501       |
| Finance income   |       | (158)     | (66)      |
| Finance costs  |       | 823       | 1,149     |
| Unrealised foreign exchange gain   |       | (2,605)   | (2,261)   |
|  |       | 3,741     | 4,185     |
| Working capital adjustments  |       |           |           |
| Change in inventories  |       | (19,282)  | 10,894    |
| Change in trade and other receivables  |       | (1,837)   | 1,069     |
| Change in prepayments  |       | (900)     | (3,575)   |
| Change in taxes recoverable, other than income tax                                   |       | (1,577)   | 2,731     |
| Change in trade and other payables   |       | (965)     | (5,688)   |
| Change in advances received  |       | 5,408     | (6,119)   |
| Change in taxes payable, other than income tax                                       |       | 56        | (469)     |
|  |       | (15,356)  | 3,028     |
| Interest received  |       | 158       | 66        |
| Interest paid  |       | (5,364)   | (6,739)   |
| Income taxes paid  |       | (2)       | -         |
| <b>Net cash flows used in operating activities</b>                                   |       | (20,564)  | (3,645)   |
| Investing activities   |       |           |           |
| Proceeds from sale of property, plant and equipment and investment properties        |       | 1,219     | 1,322     |
| Purchase of property, plant and equipment and investment properties                  |       | (1,024)   | (3,012)   |
| Purchase of intangible assets  |       | (8)       | (206)     |
| Purchase of property development rights  |       | (658)     | (2,560)   |
| Contribution into associates   |       | -         | (350)     |
| <b>Net cash flows used in investing activities</b>                                   |       | (471)     | (4,806)   |
| Financing activities   |       |           |           |
| Proceeds from loans  |       | 21,870    | 17,585    |
| Repayment of loans   |       | (360)     | (4,849)   |
| Repayment of bonds   |       | -         | (3,915)   |
| Repayment of finance lease liabilities   |       | (968)     | -         |
| Purchase of treasury shares  |       | -         | (39)      |
| <b>Net cash flows from financing activities</b>                                      |       | 20,542    | 8,782     |
| Net (decrease) / increase in cash and cash equivalents                               |       | (493)     | 331       |
| Net foreign exchange difference  |       | 10        | 17        |
| Cash and cash equivalents at 1 January   |       | 1,344     | 1,661     |
| Cash and cash equivalents at 30 June   |       | 861       | 2,009     |

*The accompanying notes form an integral part of the interim condensed consolidated financial statements*

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

## 1. Corporate information

These interim condensed consolidated financial statements are prepared by TMM Real Estate Development plc (hereinafter referred to as the "Company"), a Cyprus public company incorporated in Nicosia, Cyprus on 30 November 2006 under Cyprus law under the name Espina Holdings Ltd. The Company was renamed to TMM Real Estate Development Ltd on 5 January 2007. The address of the Company's registered office is 1, Lampousas Str., 1095, Nicosia, Cyprus and its principal place of business is located at 49 A Vladimirska street, Kyiv, Ukraine 01034.

The Company is a subsidiary of TMM Holdings Ltd, which is also incorporated in Cyprus.

The Company mainly acts as a holding company and exercises control over the operations of its subsidiaries.

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") are construction and development of residential and business properties in Ukraine (mainly Kyiv, Kharkiv, Zhytomir and Crimea).

The list of the subsidiaries and associates and the Company's effective ownership interest as at December 31 is disclosed below.

| <i>Name</i>                                      | <i>Principal activities</i>          | <i>30 June<br/>2010</i> | <i>31 December<br/>2009</i> |
|--|--------------------------------------|-------------------------|-----------------------------|
|  |                                      | <i>Unaudited</i>        | <i>Audited</i>              |
| <b>Subsidiaries:</b>                             |                                      |                         |                             |
| LLC Firm TMM                                     | Construction and development         | 100.0%                  | 100.0%                      |
| LLC Geravit                                      | Development project                  | 100.0%                  | 100.0%                      |
| LLC Palladiy                                     | Development project                  | 100.0%                  | 100.0%                      |
| LLC Tavrida Plaza                                | Development project                  | 100.0%                  | 100.0%                      |
| LLC Stimul+                                      | Development project                  | 100.0%                  | 100.0%                      |
| PE Budinvestservice 2004                         | Development project                  | 100.0%                  | 100.0%                      |
| PE Greenbud                                      | Development project                  | 100.0%                  | 100.0%                      |
| CJSC Victor                                      | Development project                  | 100.0%                  | 100.0%                      |
| LLC Kirovograd Plant of<br>Construction Ceramics | Production of construction materials | 99.9%                   | 99.9%                       |
| LLC TMM Pallada                                  | Development project                  | 99.0%                   | 99.0%                       |
| LLC Ecomsystema                                  | Development project                  | 99.0%                   | 99.0%                       |
| LLC Specialist                                   | Development project                  | 98.0%                   | 98.0%                       |
| OJSC Ukrstsukorteploizoliatsia                   | Production of construction materials | 98.0%                   | 98.0%                       |
| LLC TMM Vikna                                    | Production of construction materials | 91.0%                   | 91.0%                       |
| LLC TMM Budkomplekt                              | Production of construction materials | 90.0%                   | 90.0%                       |
| LLC B2B  | Development project                  | 85.0%                   | 85.0%                       |
| LLC Adept-2004                                   | Development project                  | 70.0%                   | 70.0%                       |
| LLC TMM-Energo                                   | Development project                  | 60.0%                   | 60.0%                       |
| <b>Associates:</b>                               |                                      |                         |                             |
| CJSC TMM Energobud                               | Production of power facilities       | 50.0%                   | 50.0%                       |
| LLC Ukr-bud-service                              | Development project                  | 50.0%                   | 50.0%                       |
| LLC Utilservice                                  | Development project                  | 50.0%                   | 50.0%                       |

All subsidiaries and associates are incorporated in Ukraine.

The Group is ultimately controlled by Mr. M. Tolmachov, who controls a majority of the voting rights.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
as at 30 June 2010**

*(in thousands of US dollars, unless otherwise indicated)*

**2. Basis of preparation and accounting policies****Basis of preparation**

These interim condensed consolidated financial statements for the six-month period ended 30 June 2010 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2009.

These interim condensed consolidated financial statements are presented in US dollars thousand and all values are rounded off to the nearest thousand except when otherwise indicated.

**Going concern**

As a consequence of the global crisis, demand for residential and commercial property in Ukraine has weakened sharply since the last quarter of 2008, supplemented by a substantial cut in residential and commercial property prices. This resulted in the drop of the Group's revenue by approximately 41% in the six-month period ended 30 June 2010. It is not expected that a significant improvement in the property market conditions will emerge in 2010. Poor property market conditions, inability of the Group to realise substantial part of its inventories within twelve months after the statement of position date due to its normal operating cycle which varies from 12 to 36 months and negative operating cash flows may affect the Group's prospective ability to generate cash flows from operating activities sufficient to repay its loans and borrowings as they fall due, as well as settle other liabilities.

Subsequent to the statement of position date the Group has extended maturity of the substantial part of its loan facilities to September 2012 - December 2015 (Note 16), while the negotiations on the extension of the payment term of the EUR denominated credit line which is equivalent to USD 20,692 thousand, including current portion of USD 17,894 thousand, were incomplete. Accordingly, the Group's ability to continue its operations on the going concern basis is dependent on its ability to renegotiate an extension of the payment term of its EUR denominated credit line with its existing lender.

The Group's management believes that negotiations with its lender will be successfully completed in 2010 and the EUR denominated credit line term will be extended until 2011-2012. However, at the date of authorisation of these interim condensed consolidated financial statements negotiations with its lender were incomplete. These conditions represent a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and, in such case, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010**

*(in thousands of US dollars, unless otherwise indicated)*

### **2. Basis of preparation and accounting policies (continued)**

#### **Functional and presentation currencies**

The Group's presentation currency is the US dollar ("USD"). The functional currency of all the Company and its subsidiaries is the Ukrainian hryvnia ("UAH") as it reflects the economic substance of the underlying events and circumstances of their operations.

#### **Significant accounting policy**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations as at 1 January 2010, noted below:

- ▶ IFRS 3R Business Combinations (Revised) and IAS 27R Consolidated and Separate Financial Statements (Amended)
- ▶ IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items
- ▶ Amendments to IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions
- ▶ IFRIC 17 Distribution of Non-cash Assets to Owners

#### ***IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements***

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control. The adoption of these changes did not have any impact on the financial position or performance of the Group.

#### ***IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items***

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not have any impact on the financial position or performance of the Group, as the Group did not enter into any such hedges.

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010**

*(in thousands of US dollars, unless otherwise indicated)*

### **2. Basis of preparation and accounting policies (continued)**

#### ***Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions***

The amendments were issued in June 2009 and are effective for annual periods beginning on or after 1 January 2010. The amendments clarify the accounting for group cash-settled share-based payment transactions. Specifically, an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amended standard clarifies that in IFRS 2 a "group" has the same meaning as in IAS 27, that is, it includes only a parent and its subsidiaries. The amended standard did not have any effect on financial position or performance of the Group as the Group did not enter into such transactions.

#### ***IFRIC 17 Distributions of Non-cash Assets to Owners***

IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted. This interpretation should be applied prospectively. IFRIC 17 provides guidance on accounting for distributions of non-cash assets to owners. As such it provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. IFRIC 17 did not have any impact on the financial position or performance of the Group, as the Group did not distribute non-cash assets to its owners.

#### ***Improvements to IFRSs***

In May 2008 the IASB issued first omnibus of amendments to its standards primarily with a view to removing inconsistencies and clarifying wording. The Group has adopted the following amendment to standards and has updated its accounting policies accordingly, but this change did not have any material effect on the financial position or performance of the Group:

##### ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:***

This amendment is effective for annual periods commencing 1 July 2009. The amendment clarifies that when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains non-controlling interest in the subsidiary after the sale.

In April 2009 the IASB issued second omnibus edition of amendments to its standards, majority of which are effective for annual periods beginning on or after 1 January 2010, unless stated otherwise. The following amendments to standards were adopted by the Group since 1 January 2010 and the Group has updated its accounting policies accordingly, but these changes did not have material effect on the financial position or performance of the Group:

##### ***IFRS 2 Share-based payment:***

The amendment is effective for annual periods beginning on or after 1 July 2009. It clarifies that the contribution of a business on formation of joint venture and combinations under common control are not within the scope of IFRS 2.

##### ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:***

The amendment clarifies that the disclosures required in respect of non-current assets, disposal groups classified as held for sale, or discontinued operations are only those set out in IFRS 5.

##### ***IFRS 8 Operating segments:***

Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010**

*(in thousands of US dollars, unless otherwise indicated)*

### **2. Basis of preparation and accounting policies (continued)**

#### ***Improvements to IFRSs (continued)***

##### ***IAS 1 Presentation of Financial Statements:***

The terms of liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

##### ***IAS 7 Statement of Cash Flows:***

Only expenditure that results in a recognised asset can be classified as cash flow from investing activities.

##### ***IAS 17 Leases:***

The specific guidance on classifying land as lease has been removed so that only the general guidance remains.

##### ***IAS 36 Impairment of Assets:***

The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes.

##### ***IAS 38 Intangible Assets:***

If an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided that the individual assets have similar useful lives. In addition, the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are not restrictive on the methods that can be used. These amendments are effective for annual periods commencing on or after 1 July 2009.

##### ***IAS 39 Financial Instruments: Recognition and Measurement:***

The changes include conditions for assessment of loan prepayment penalties as embedded derivatives, scope exemption for business combination contract for derivative contracts, where further actions still have to be taken and cash flow hedge accounting.

##### ***IFRIC 9 Reassessment of Embedded Derivatives:***

Clarification that IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. These amendments are effective for annual periods commencing on or after 1 July 2009.

##### ***IFRIC 16 Hedges of a Net Investment in a Foreign Operation:***

Qualifying hedging instruments may be held by an entity within the Group, provided the designation, documentation and effectiveness requirements of IAS 39 are met. These amendments are effective for annual periods commencing on or after 1 July 2009.

### **3. Seasonality of operations**

The Group's business is not material exposed to the seasonal fluctuations.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

### 4. Revenue

Revenue for the six-month period ended 30 June comprised:

|  | <u>2010</u>      | <u>2009</u>      |
|--|------------------|------------------|
|  | <u>Unaudited</u> | <u>Unaudited</u> |
| Sales of completed inventory property    | 8,121            | 17,854           |
| Rental income from investment properties | 1,584            | 1,412            |
| Other                                    | 3,692            | 3,252            |
|  | <u>13,397</u>    | <u>22,518</u>    |

Other revenue included USD 1,761 thousand of utility services income (the six-month period ended 30 June 2009: USD 1,158 thousand) and USD 961 thousand of income from miscellaneous construction services rendered to third parties (the six-month period ended 30 June 2009: USD 584 thousand). All revenue is generated from sales to customers in Ukraine.

### 5. Cost of revenue

Cost of revenue for the six-month period ended 30 June comprised:

|   | <u>2010</u>      | <u>2009</u>      |
|---|------------------|------------------|
|   | <u>Unaudited</u> | <u>Unaudited</u> |
| Cost of completed inventory property sold | 4,516            | 11,027           |
| Other                                     | 3,730            | 2,120            |
|   | <u>8,246</u>     | <u>13,147</u>    |

Other cost of revenue included USD 1,856 thousand of utility services cost (the six-month period ended 30 June 2009: USD 1,474 thousand) and USD 942 thousand of cost of miscellaneous construction services rendered to third parties (the six-month period ended 30 June 2009: USD 446 thousand).

### 6. Operating segment information

#### Identification of reportable segments

For management purposes, the Group is organised into business units based on their products and services and has the following reportable operating segments:

- ▶ Investment property segment - leases residential and commercial property owned by the Group;
- ▶ Property development segment - builds and sells residential and commercial property.

No operating segments have been aggregated to form the above reportable operating segments.

All other non-reportable segments include the Group's operations related to other construction and utility services and other operations.

An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Board of Directors. The Board of Directors monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

### 6. Operating segment information (continued)

#### Operating segments

The following table presents revenue and profit information regarding the Group's operating segments for the six-month period ended 30 June 2010 and 2009, respectively;

| <i>Six-month period ended<br/>30 June 2010 (unaudited)</i> | <i>Investment<br/>property</i> | <i>Property<br/>development</i> | <i>Other non-<br/>reportable</i> | <i>Adjustments and<br/>eliminations</i> | <i>Consolidated</i> |
|--|--------------------------------|---------------------------------|----------------------------------|---|---------------------|
| Revenue  |                                |                                 |                                  |   |                     |
| External customers   | 1,458                          | 8,136                           | 4,072                            | (269) <sup>1</sup>                      | 13,397              |
| Inter-segment  | -                              | -                               | 338                              | (338) <sup>2</sup>                      | -                   |
| Total revenue  | 1,458                          | 8,136                           | 4,410                            | (607)                                   | 13,397              |
| Results  |                                |                                 |                                  |   |                     |
| Segment profit / (loss)                                    | 2,684                          | 9,543                           | 62                               | (4,620) <sup>3</sup>                    | 7,669               |
| <i>Six-month period ended<br/>30 June 2009 (unaudited)</i> |                                |                                 |                                  |   |                     |
| Revenue  |                                |                                 |                                  |   |                     |
| External customers   | 1,405                          | 16,337                          | 7,715                            | (2,939) <sup>1</sup>                    | 22,518              |
| Inter-segment  | -                              | -                               | 362                              | (362) <sup>2</sup>                      | -                   |
| Total revenue  | 1,405                          | 16,337                          | 8,077                            | (3,301)                                 | 22,518              |
| Results  |                                |                                 |                                  |   |                     |
| Segment (loss) / profit                                    | (15,112)                       | 4,071                           | 692                              | (7,710) <sup>3</sup>                    | (18,060)            |

1. External customer's revenues are adjusted to be presented on accrual basis.
2. Inter-segment revenues are eliminated on consolidation.
3. Profit or loss for each operating segment does not include USD 221 thousand (the six-month period ended 30 June 2009: USD 628 thousand) of other operating income, USD 2,500 thousand (the six-month period ended 30 June 2009: USD 2,424 thousand) of general and administrative expenses, USD 2,513 thousand (the six-month period ended 30 June 2009: USD 5,918 thousand) of other operating expenses and USD 158 thousand (the six-month period ended 30 June 2009: USD 66 thousand) of finance income. Segment operating profit does include USD 14 thousand of loss from inter-segment sales (the six-month period ended 30 June 2009: USD 62 thousand of income from inter-segment sales).

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2010 and 31 December 2009:

| <i>As at 30 June 2010</i>        | <i>Investment<br/>property</i> | <i>Property<br/>development</i> | <i>Other non-<br/>reportable</i> | <i>Adjustments and<br/>eliminations</i> | <i>Consolidated</i> |
|----------------------------------|--------------------------------|---------------------------------|----------------------------------|---|---------------------|
| Operating assets                 | 69,922                         | 229,084                         | 9,591                            | 70,626 <sup>1</sup>                     | 379,223             |
| Operating liabilities            | -                              | 176,422                         | 4,627                            | 37,432 <sup>2</sup>                     | 218,481             |
| Other disclosures                |                                |                                 |                                  |   |                     |
| Capital expenditure <sup>3</sup> | 87                             | 660                             | -                                | 898                                     | 1,645               |
| <i>As at 31 December 2009</i>    |                                |                                 |                                  |   |                     |
| Segment assets                   | 68,053                         | 200,271                         | 9,068                            | 79,373 <sup>1</sup>                     | 356,765             |
| Segment liabilities              | -                              | 153,817                         | 2,891                            | 43,951 <sup>2</sup>                     | 200,659             |
| Other disclosures                |                                |                                 |                                  |   |                     |
| Capital expenditure <sup>3</sup> | 133                            | 3,343                           | -                                | 2,095                                   | 5,571               |



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

### 6. Operating segment information (continued)

1. Segment assets do not include USD 62,731 thousand (31 December 2009: USD 64,566 thousand) of property, plant and equipment, USD 541 thousand (31 December 2009: USD 589 thousand) of intangible assets, USD nil (31 December 2009: USD 8,765 thousand) of prepayments, USD 7,335 thousand (31 December 2009: USD 5,433 thousand) of trade and other receivables and USD 19 thousand (31 December 2009: USD 20 thousand) of prepaid income tax as these assets are managed on a group basis. Property, plant and equipment not reportable to the board on a segment basis comprise freehold buildings, vehicles, office and computer equipment and construction in progress.
2. Segment liabilities do not include USD 33,422 thousand (31 December 2009: USD 30,939 thousand) of deferred tax liabilities, USD 2,754 (31 December 2009: USD 11,822 thousand) of other payables and USD 1,256 thousand (31 December 2009: USD 1,190 thousand) of taxes payable as these liabilities are managed on a group basis.
3. Capital expenditure consists of additions property plant and equipment, investment properties and property development rights and costs.

### 7. Income tax

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its entities (in Ukraine and Cyprus). During the six-month period ended 30 June 2010 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (the six-month period ended 30 June 2009: 25%). During the six-month period ended 30 June 2010 Cyprus income tax rate was 10% (the six-month period ended 30 June 2009: 10%).

Income-tax expense for the six-month period ended 30 June 2010 has been calculated using the best estimate of the effective tax rate expected for the full financial year. Income tax expense for the six-month period ended 30 June 2009 has been calculated using the actual effective tax rate for the year of 2009.

The major components of income tax expense for the six-month periods ended 30 June 2010 and 2009 are:

#### Profit or loss

|  | For the six-month period ended 30 June |                |
|--|--|----------------|
|  | 2010                                   | 2009           |
|  | Unaudited                              | Unaudited      |
| Current income tax charge  | 4                                      | 5              |
| Deferred tax relating to reversal and origination of temporary differences | 2,545                                  | (3,430)        |
| Income tax expense / (benefit) reported in profit or loss                  | <u>2,549</u>                           | <u>(3,425)</u> |

#### Other comprehensive loss

|   |              |                |
|---|--------------|----------------|
| Loss on revaluation of freehold buildings                       | (383)        | (5,748)        |
| Income tax benefit charged directly to other comprehensive loss | <u>(383)</u> | <u>(5,748)</u> |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

## 8. Property, plant and equipment

The movement in property plant and equipment for the six-month period ended 30 June 2010 was as follows:

|   | <i>Freehold land</i> | <i>Freehold buildings</i> | <i>Heavy construction equipment</i> | <i>Production, construction and research equipment</i> | <i>Vehicles</i> | <i>Office and computer equipment</i> | <i>Construction in progress</i> | <i>Total</i>   |
|---|----------------------|---------------------------|-------------------------------------|--|-----------------|--------------------------------------|---------------------------------|----------------|
| <i>Cost or fair value:</i>                      |                      |                           |                                     |  |                 |                                      |                                 |                |
| <b>At 1 January 2010 (audited)</b>              | 21,250               | 47,629                    | 8,788                               | 4,485  | 2,972           | 1,988                                | 16,482                          | 103,594        |
| Additions                                       | -                    | 38                        | -                                   | 2  | -               | 51                                   | 847                             | 938            |
| Disposals                                       | -                    | (162)                     | (714)                               | (293)  | (19)            | (17)                                 | (213)                           | (1,418)        |
| Transfers                                       | -                    | 100                       | -                                   | 2  | -               | -                                    | (102)                           | -              |
| Revaluations                                    | -                    | (2,011)                   | -                                   | -  | -               | -                                    | -                               | (2,011)        |
| Translation difference                          | 210                  | 468                       | 82                                  | 42   | 29              | 21                                   | 164                             | 1,016          |
| <b>At 30 June 2010 (unaudited)</b>              | <u>21,460</u>        | <u>46,062</u>             | <u>8,156</u>                        | <u>4,238</u>   | <u>2,982</u>    | <u>2,043</u>                         | <u>17,178</u>                   | <u>102,119</u> |
| <i>Accumulated depreciation and impairment:</i> |                      |                           |                                     |  |                 |                                      |                                 |                |
| <b>At 1 January 2010 (audited)</b>              | (1,794)              | (1,551)                   | (1,733)                             | (2,009)  | (968)           | (1,019)                              | (967)                           | (10,041)       |
| Depreciation charge for the year                | -                    | (477)                     | (200)                               | (346)  | (245)           | (209)                                | -                               | (1,477)        |
| Impairment reversal/(charge)                    | 1,812                | (243)                     | -                                   | -  | -               | -                                    | (305)                           | 1,264          |
| Disposals                                       | -                    | -                         | 134                                 | 138  | 7               | 16                                   | -                               | 295            |
| Revaluations                                    | -                    | 480                       | -                                   | -  | -               | -                                    | -                               | 480            |
| Translation difference                          | (18)                 | (19)                      | (19)                                | (20)   | (10)            | (12)                                 | (12)                            | (110)          |
| <b>At 30 June 2010 (unaudited)</b>              | <u>-</u>             | <u>(1,810)</u>            | <u>(1,818)</u>                      | <u>(2,237)</u>   | <u>(1,216)</u>  | <u>(1,224)</u>                       | <u>(1,284)</u>                  | <u>(9,589)</u> |
| <i>Net book value</i>                           |                      |                           |                                     |  |                 |                                      |                                 |                |
| <b>At 1 January 2010 (audited)</b>              | <u>19,456</u>        | <u>46,078</u>             | <u>7,055</u>                        | <u>2,476</u>   | <u>2,004</u>    | <u>969</u>                           | <u>15,515</u>                   | <u>93,553</u>  |
| <b>At 30 June 2010 (unaudited)</b>              | <u>21,460</u>        | <u>44,252</u>             | <u>6,338</u>                        | <u>2,001</u>   | <u>1,766</u>    | <u>819</u>                           | <u>15,894</u>                   | <u>92,530</u>  |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**as at 30 June 2010**  
*(in thousands of US dollars)*

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

The movement in property plant and equipment for the six-month period ended 30 June 2009 was as follows:

|   | <i>Freehold land</i> | <i>Freehold buildings</i> | <i>Heavy construction equipment</i> | <i>Production, construction and research equipment</i> | <i>Vehicles</i> | <i>Office and computer equipment</i> | <i>Construction in progress</i> | <i>Total</i>    |
|---|----------------------|---------------------------|-------------------------------------|--|-----------------|--------------------------------------|---------------------------------|-----------------|
| <i>Cost or fair value:</i>                      |                      |                           |                                     |  |                 |                                      |                                 |                 |
| <b>At 1 January 2009 (audited)</b>              | 22,037               | 98,655                    | 9,267                               | 4,468  | 3,134           | 1,849                                | 15,986                          | 155,396         |
| Additions                                       | -                    | 2                         | 158                                 | 626  | 4               | 157                                  | 1,933                           | 2,880           |
| Disposals                                       | -                    | (825)                     | (165)                               | (232)  | (54)            | (52)                                 | (127)                           | (1,455)         |
| Transfers from investment properties            | -                    | 221                       | -                                   | -  | -               | -                                    | -                               | 221             |
| Transfers to investment properties              | -                    | (20,119)                  | -                                   | (225)  | -               | -                                    | -                               | (20,344)        |
| Other transfers                                 | -                    | 1,326                     | -                                   | -  | -               | 15                                   | (1,341)                         | -               |
| Revaluations                                    | -                    | (23,789)                  | -                                   | -  | -               | -                                    | -                               | (23,789)        |
| Translation difference                          | 201                  | 886                       | 85                                  | 43   | 29              | 18                                   | 165                             | 1,427           |
| <b>At 30 June 2009 (unaudited)</b>              | <u>22,238</u>        | <u>56,357</u>             | <u>9,345</u>                        | <u>4,680</u>   | <u>3,113</u>    | <u>1,987</u>                         | <u>16,616</u>                   | <u>114,336</u>  |
| <i>Accumulated depreciation and impairment:</i> |                      |                           |                                     |  |                 |                                      |                                 |                 |
| <b>At 1 January 2009 (audited)</b>              | -                    | (666)                     | (943)                               | (1,433)  | (506)           | (672)                                | -                               | (4,220)         |
| Depreciation charge for the year                | -                    | (793)                     | (232)                               | (285)  | (257)           | (202)                                | -                               | (1,769)         |
| Impairment charge                               | (2,765)              | (1,183)                   | (591)                               | (12)   | -               | -                                    | (1,006)                         | (5,557)         |
| Disposals                                       | -                    | -                         | 30                                  | 7  | 14              | 23                                   | -                               | 74              |
| Revaluations                                    | -                    | 798                       | -                                   | -  | -               | -                                    | -                               | 798             |
| Translation difference                          | (17)                 | (19)                      | (13)                                | (14)   | (7)             | (7)                                  | (6)                             | (83)            |
| <b>At 30 June 2009 (unaudited)</b>              | <u>(2,782)</u>       | <u>(1,863)</u>            | <u>(1,749)</u>                      | <u>(1,737)</u>   | <u>(756)</u>    | <u>(858)</u>                         | <u>(1,012)</u>                  | <u>(10,757)</u> |
| <i>Net book value</i>                           |                      |                           |                                     |  |                 |                                      |                                 |                 |
| <b>At 1 January 2009 (audited)</b>              | <u>22,037</u>        | <u>97,989</u>             | <u>8,324</u>                        | <u>3,035</u>   | <u>2,628</u>    | <u>1,177</u>                         | <u>15,986</u>                   | <u>151,176</u>  |
| <b>At 30 June 2009 (unaudited)</b>              | <u>19,456</u>        | <u>54,494</u>             | <u>7,596</u>                        | <u>2,943</u>   | <u>2,357</u>    | <u>1,129</u>                         | <u>15,604</u>                   | <u>103,579</u>  |

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

### 8. Property, plant and equipment (continued)

#### *Impairment of freehold land and construction in progress*

During the six-month period ended 30 June 2010 the Group recognized reversal of impairment losses in respect of freehold land in the amount of USD 1,812 thousand (the six-month period ended 30 June 2009 impairment charge: USD 2,765 thousand) as a result of changes in the fair value less cost to sell which was determined based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property. This has been recognised in the interim consolidated statement of comprehensive income in the line item 'Other operating income'.

During the six-month period ended 30 June 2010 the Group recognized impairment charge in respect of construction in progress in the amount of USD 305 thousand (the six-month period ended 30 June 2009: USD 1,006 thousand) based on the fair value less cost to sell which was determined based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property. This has been recognised in the interim consolidated statement of comprehensive income in the line item 'Other operating expenses'.

#### *Revaluation of freehold buildings*

The Group engaged an independent valuer to determine the fair value of its freehold buildings. The method used to estimate fair value is combination of both the cost and the market approach. The market approach is based upon an analysis of the comparable market quotes of similar properties adjusted for any difference in the nature, location or condition of the specific property. The date of the revaluation was 30 June 2010 and 2009 and 31 December 2009 and 2008.

Net revaluation result for the six-month period ended 30 June 2010 was USD 1,774 thousand of which USD 1,531 thousand of decrease in revaluation surplus was recognised in other comprehensive income and USD 243 thousand of impairment was recognised in profit or loss (the six-month period ended 30 June 2009: USD 22,991 thousand of revaluation decrease was recognised in other comprehensive income and USD 1,183 thousand of impairment was recognised in profit or loss).

### 9. Investment properties

The movement in investment properties for the six-month period ended 30 June 2010 and 2009 was as follows:

|   | 2010          | 2009          |
|---|---------------|---------------|
| <b>At 1 January (audited)</b>                 | 68,052        | 68,004        |
| Additions                                     | 86            | 132           |
| Transfers from property, plant and equipment  | -             | 20,344        |
| Transfers from inventories                    | -             | 250           |
| Transfers to property, plant and equipment    | -             | (221)         |
| Disposals                                     | (66)          | (135)         |
| Change in fair value of investment properties | 1,171         | (16,510)      |
| Translation difference                        | 679           | 531           |
| <b>At 30 June (unaudited)</b>                 | <u>69,922</u> | <u>72,395</u> |

Investment properties comprise a number of commercial properties held with the aim of capital appreciation and earning rentals or both.

Investment properties are stated at fair value, which has been determined based on valuations performed by an accredited independent valuer, 30 June 2010 and 2009 and 31 December 2009 and 2008. Fair value is determined by reference to market based evidence. This means that valuations performed by the appraiser are based on active market quotes, adjusted for any difference in the nature, location or condition of the specific property.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

## 10. Inventories

During the six-month period ended 30 June 2010 the Group acquired the completed residential complex "Ultra" in Kharkiv for cash consideration of USD 16,870 thousand (Note 12). The Group plans to sell this property in the ordinary course of its business.

## 11. Trade and other receivables

As at 30 June 2010 trade and other receivables of USD 6,384 thousand (31 December 2009: USD 6,796 thousand) were impaired and fully provided for.

## 12. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings consisted of the following:

|                  | <u>30 June 2010</u><br><i>Unaudited</i> | <u>31 December</u><br><u>2009</u><br><i>Audited</i> |
|------------------|---|---|
| Current          |   |   |
| Bank loans       | 76,338                                  | 22,094  |
| Supplier credits | 569                                     | 331   |
|                  | <u>76,907</u>                           | <u>22,425</u>                                       |
| Non-current      |   |   |
| Bank loans       | 26,925                                  | 60,771  |
| Supplier credits | 1,054                                   | 1,451   |
|                  | <u>27,979</u>                           | <u>62,222</u>                                       |
|                  | <u>104,886</u>                          | <u>84,647</u>                                       |

On 28 January 2010 the Group has entered into an agreement with a Ukrainian bank for a new credit line of UAH 150,000 thousand (USD 18,745 thousand at the foreign exchange rate as at 28 January 2010) with the maturity term on 27 January 2013 bearing an interest at 15.5% - 19.0% per annum.

On 28 January 2010 the Group has entered into an agreement with a Ukrainian bank for a new loan facility of UAH 135,000 thousand (USD 16,870 thousand at the foreign exchange rate as at 28 January 2010) with the maturity term on 27 January 2011 bearing an interest at 15.5% per annum. The loan was provided towards acquisition of residential complex "Ultra" in Kharkiv acquired for a purpose of subsequent re-sale (Note 10).

Subsequent to the statement of position date the Group entered into additional agreements with a Ukrainian bank extending repayment of certain credit lines and loan facilities (Note 16).

As at 30 June 2010 the Group had available un-drawn borrowing facilities of UAH 110,140 thousand (USD 13,930 thousand at the foreign exchange rate as at 30 June 2010).

Interest-bearing loans and borrowings were secured as follows:

| <u>Type of collateral</u>     | <u>30 June 2010</u><br><i>Unaudited</i> | <u>31 December</u><br><u>2009</u><br><i>Audited</i> |
|-------------------------------|---|---|
| Property, plant and equipment | 50,065                                  | 50,940  |
| Investment properties         | 35,722                                  | 32,437  |
| Inventories                   | 26,748                                  | 27,386  |
|                               | <u>112,535</u>                          | <u>110,763</u>                                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010

(in thousands of US dollars, unless otherwise indicated)

## 13. Advances received

As at 30 June 2010 advances received included USD 55,126 thousand of advances received for inventory property under development that management estimates will be realised in the ordinary operating cycle (31 December 2009: USD 50,891 thousand).

## 14. Related party disclosure

The Group's transactions with its related parties for the six-month period ended 30 June 2010 and 2009 were as follows:

|                               | Revenue    | Other operating income | Purchases    | General and administrative expenses | Other operating expenses |
|-------------------------------|------------|------------------------|--------------|-------------------------------------|--------------------------|
|                               | Unaudited  |                        |              |                                     |                          |
| 2010                          |            |                        |              |                                     |                          |
| Associate                     | 274        | 35                     | 395          | -                                   | -                        |
| Entities under common control | 131        | 315                    | 266          | -                                   | 33                       |
|                               | <u>405</u> | <u>350</u>             | <u>661</u>   | <u>-</u>                            | <u>33</u>                |
| 2009                          |            |                        |              |                                     |                          |
| Associate                     | -          | -                      | 19           | -                                   | -                        |
| Entities under common control | 215        | -                      | 1,175        | 250                                 | -                        |
|                               | <u>215</u> | <u>-</u>               | <u>1,194</u> | <u>250</u>                          | <u>-</u>                 |

The outstanding balances due from related parties as at 30 June 2010 and 31 December 2009 were as follows:

|                               | Trade and other receivables | Prepayments  | Cash       | Trade and other payables | Advances received |
|-------------------------------|-----------------------------|--------------|------------|--------------------------|-------------------|
|                               | Unaudited                   |              |            |                          |                   |
| 2010                          |                             |              |            |                          |                   |
| Associate                     | 1,026                       | 3,222        | -          | 149                      | 720               |
| Entities under common control | 1,812                       | 396          | 75         | 592                      | 5,494             |
|                               | <u>2,838</u>                | <u>3,618</u> | <u>75</u>  | <u>741</u>               | <u>6,214</u>      |
| 2009                          |                             |              |            |                          |                   |
| Associate                     | 124                         | 3,835        | -          | 149                      | 704               |
| Entities under common control | 1,001                       | 285          | 221        | 1,962                    | 5,343             |
|                               | <u>1,125</u>                | <u>4,120</u> | <u>221</u> | <u>2,111</u>             | <u>6,047</u>      |

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2010**

*(in thousands of US dollars, unless otherwise indicated)*

### **15. Contingencies and commitments**

#### ***Tax matters***

As discussed in Note 1, the Group conducts majority of its operations in Ukraine. The Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. In general, legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, in particular the Group is exposed to inconsistent interpretations related to revenue recognition for tax purposes in real-estate sector. Instances of inconsistent interpretations are not unusual. Management believes that its interpretations of the relevant legislation are sustainable and, consequently, in management's opinion the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

In the course of its commercial activities the Group carried out certain transactions with clients and suppliers in order to provide for financial flexibility. Such transactions may be challenged by regulators and treated for tax purposes in a different way. Consequently, it is possible that tax authorities may assess additional income and other taxes and penalties against the Group, having a material effect, which currently could not be estimated reliably.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group's financial position, results of operations and cash flows. As at 30 June 2010 the Group's management estimated that maximum cumulated tax exposure amounted to USD 1,734 thousand.

The Group management believes that the Group has sufficient basis to support its compliance with all regulations, and it is not likely that any significant settlement will arise from its interpretation and application of tax legislation and regulations.

#### ***Legal matters***

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

#### ***Purchase commitments***

As at 30 June 2010 the Group had outstanding commitments in respect of purchasing construction materials and sub-contractors services in the amount of USD 8,329 thousand (31 December 2009: USD 2,966 thousand).

### **16. Subsequent events**

Subsequent to the statement of position date the Group:

- Entered into an additional agreement with a Ukrainian bank extending repayment of credit line monthly equal principal instalments in the total amount of USD 38,503 thousand (including current portion of a credit line principal in the amount of USD 19,542 thousand) from November 2010 - February 2012 to September 2012 - December 2015.
- Entered into an additional agreement with a Ukrainian bank extending repayment of a current credit line principal in the amount of USD 18,971 thousand from May 2011 to September 2012 - December 2015 by monthly equal principal instalments.
- Entered into an additional agreement with a Ukrainian bank extending repayment of a loan facility in the amount of USD 16,962 thousand from January 2011 to September 2012 - December 2015 by monthly equal principal instalments.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
as at 30 June 2010**

*(in thousands of US dollars, unless otherwise indicated)*

**16. Subsequent events (continued)**

- Entered into an additional agreement with a Ukrainian bank extending repayment of a credit line principal in the amount of USD 18,930 thousand from January 2013 to September 2012 - December 2015 by monthly equal principal instalments
- Subsequent to 31 December 2009 the Group entered into additional agreements with a Ukrainian bank setting for four credit lines in the total amount of USD 93,366 thousand an interest at 15.5% per annum during July 2010 - December 2011 and at 17.00% per annum during January 2012 - December 2015. In accordance with additional agreements, an interest accrued during July 2010 - December 2011 is repaid by equal monthly instalments at 5.00% per annum during July 2010 - December 2011 and at 10.50% per annum during January 2013 - December 2015; an interest accrued during January 2012 - December 2015 is repaid by equal monthly instalments at 17.00% per annum during January 2012 - December 2015.
- Continued negotiations with one of its lenders to extend the payment term of its EUR denominated credit line of USD 20,692 thousand, including current portion of USD 17,894 thousand.