

**JSC Galt & Taggart Capital and Subsidiaries**  
**Consolidated Financial Statements**

*Year ended 31 December 2007*  
*Together with Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Galt & Taggart Capital -

We have audited the accompanying consolidated financial statements of JSC Galt & Taggart Capital and Subsidiaries which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated statement of operations, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Galt & Taggart Capital and Subsidiaries as at 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

10 May 2008



Ernst & Young Audit LLC

**CONSOLIDATED BALANCE SHEET****As of 31 December 2007***(Thousands of Georgian Lari)*

|   | <i>Notes</i> | <i>2007</i>   | <i>2006</i>   |
|---|--------------|---------------|---------------|
| <b>ASSETS</b>   |              |               |               |
| <b>Current assets</b>   |              |               |               |
| Cash and cash equivalents   | 5            | 5,777         | 4,789         |
| Accounts receivables  | 6            | 580           | 441           |
| Prepayments   | 7            | 1,093         | 1,235         |
| Inventories   | 8            | 716           | –             |
| Asset held for sale   | 9            | 4,145         | –             |
| <b>Total current assets</b>                                       |              | <b>12,311</b> | <b>6,465</b>  |
| <b>Non-current assets</b>   |              |               |               |
| Investment property   | 10           | 39,474        | 1,224         |
| Investment securities - available-for-sale                        | 11           | 5,617         | 350           |
| Investments in associates   | 12           | 4,348         | 496           |
| Property and equipment  | 13           | 10,581        | 13,098        |
| Intangible assets   | 14           | 1,066         | 946           |
| Deferred tax assets   | 15           | 263           | 162           |
| Other assets  | 16           | 443           | 504           |
| <b>Total non-current assets</b>                                   |              | <b>61,792</b> | <b>16,780</b> |
| <b>TOTAL ASSETS</b>   |              | <b>74,103</b> | <b>23,245</b> |
| <b>LIABILITIES</b>  |              |               |               |
| <b>Current liabilities</b>  |              |               |               |
| Accounts payable  | 17           | 4,163         | 1,689         |
| Advances received from shareholders for increase in share capital | 18           | 7,655         | –             |
| Short-term and current portion of long-term loans and borrowings  | 19           | 5,490         | 6,027         |
| Other liabilities   | 16           | 1,879         | 335           |
| <b>Total current liabilities</b>                                  |              | <b>19,187</b> | <b>8,051</b>  |
| <b>Non-current liabilities</b>                                    |              |               |               |
| Long-term loans and borrowings                                    | 19           | 7,427         | 163           |
| Advances received   | 20           | 1,686         | –             |
| Deferred tax liabilities  | 15           | 3,265         | –             |
| <b>Total non-current liabilities</b>                              |              | <b>12,378</b> | <b>163</b>    |
| <b>TOTAL LIABILITIES</b>  |              | <b>31,565</b> | <b>8,214</b>  |
| <b>Equity</b>   |              |               |               |
| Share capital   | 21           | 524           | 453           |
| Additional paid-in capital  | 21           | 26,615        | 15,425        |
| Retained earnings (accumulated loss)                              |              | 11,422        | (847)         |
| Other reserves  | 21           | 3,977         | –             |
| <b>Total equity</b>   |              | <b>42,538</b> | <b>15,031</b> |
| <b>Total liabilities and equity</b>                               |              | <b>74,103</b> | <b>23,245</b> |

**Signed and authorised for release on behalf of the Management Board of the Company**

Eli Enoch

Chief Executive Officer

Irakli Gogia

Chief Financial Officer

10 May 2008

*The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF OPERATIONS****For the year ended 31 December 2007***(Thousands of Georgian Lari)*

|   | <b>Notes</b> | <b>2007</b>   | <b>2006</b>  |
|---|--------------|---------------|--------------|
| <b>Revenues</b>   |              |               |              |
| Net gains from revaluation of investment property       | 10           | 19,052        | –            |
| Fees and commission income                              | 22           | 2,454         | 688          |
| Revenue from lease of properties                        |              | 1,215         | –            |
| Net gains from sale of investments in associates        | 12           | 751           | –            |
| Net gains from investment securities available-for-sale | 21           | 121           | –            |
| Share of associate profit                               | 12           | 134           | –            |
| Other revenues  |              | 1,463         | 276          |
|   |              | <b>25,190</b> | <b>964</b>   |
| <b>Operating expenses</b>                               |              |               |              |
| Salaries and other employee benefits                    | 23           | 2,813         | 642          |
| Management consulting fee expense                       | 24           | 2,004         | 113          |
| General and administrative expenses                     | 23           | 1,989         | 482          |
| Net changes in inventory                                |              | 1,024         | –            |
| Depreciation and amortization                           | 13,14        | 479           | 98           |
| Performance fee   |              | 431           | 256          |
| Impairment expense                                      | 6            | –             | 48           |
| Other expenses  |              | 312           | 155          |
|   |              | <b>9,052</b>  | <b>1,794</b> |
| <b>Operating profit (loss)</b>                          |              | <b>16,138</b> | <b>(830)</b> |
| Net gains from foreign currency translations            |              | 792           | –            |
| Interest expenses                                       |              | (2,212)       | (145)        |
| <b>Profit (loss) before income tax expense</b>          |              | <b>14,718</b> | <b>(975)</b> |
| Income tax expense (benefit)                            | 15           | 2,449         | (111)        |
| <b>Net profit (loss) for the year/period</b>            |              | <b>12,269</b> | <b>(864)</b> |
| Attributable to:  |              |               |              |
| - Shareholders of the Company                           |              | 12,269        | (864)        |
|   |              | <b>12,269</b> | <b>(864)</b> |
| <b>Earnings (loss) per share:</b>                       |              |               |              |
| - basic earnings (loss) per share                       |              | 0.26          | (0.04)       |
| - diluted earnings (loss) per share                     |              | 0.26          | (0.04)       |

**Signed and authorised for release on behalf of the Management Board of the Company:**

Eli Enoch

Chief Executive Officer

Irakli Gogia

Chief Financial Officer

10 May 2008

*The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2007***(Thousands of Georgian Lari)*

|  | <i>Share<br/>capital</i> | <i>Additional<br/>paid-in<br/>capital</i> | <i>Retained<br/>earnings<br/>(Accumulat<br/>ed loss)</i> | <i>Other<br/>reserves</i> | <i>Total<br/>equity</i> |
|--|--------------------------|---|--|---------------------------|-------------------------|
| <b>24 May 2006</b>   | –                        | –   | –  | –                         | –                       |
| Gain recognized directly in equity   | –                        | –   | 17   | –                         | 17                      |
| <b>Total income recognized directly in equity</b>                                  | –                        | –   | <b>17</b>  | –                         | <b>17</b>               |
| 2006 net loss  | –                        | –   | (864)  | –                         | (864)                   |
| <b>Total expense for the period</b>  | –                        | –   | <b>(847)</b>   | –                         | <b>(847)</b>            |
| Issuance of share capital (Note 21)  | 453                      | 15,425                                    | –  | –                         | 15,878                  |
| <b>31 December 2006</b>  | <b>453</b>               | <b>15,425</b>                             | <b>(847)</b>   | –                         | <b>15,031</b>           |
| Revaluation of property and equipment,<br>net of tax (Note 21)                     | –                        | –   | –  | 1,647                     | 1,647                   |
| Revaluation of investment property,<br>net of tax (Note 21)                        | –                        | –   | –  | 1,574                     | 1,574                   |
| Net change in investment<br>securities available-for-sale, net of tax<br>(Note 21) | –                        | –   | –  | 756                       | 756                     |
| <b>Total income and expenses<br/>recognised directly in equity</b>                 | –                        | –   | –  | <b>3,977</b>              | <b>3,977</b>            |
| 2007 net profit  | –                        | –   | 12,269   | –                         | 12,269                  |
| <b>Total income for the year</b>   | –                        | –   | <b>12,269</b>  | <b>3,977</b>              | <b>16,246</b>           |
| Issuance of share capital (Note 21)  | 71                       | 11,190                                    | –  | –                         | 11,261                  |
| <b>31 December 2007</b>  | <b>524</b>               | <b>26,615</b>                             | <b>11,422</b>  | <b>3,977</b>              | <b>42,538</b>           |

*The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.*

**CONSOLIDATED CASH FLOW STATEMENT****For the year ended 31 December 2007***(Thousands of Georgian Lari)*

|  | <b>Notes</b> | <b>2007</b>     | <b>2006</b>     |
|--|--------------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>  |              |                 |                 |
| Fees and commission income received  |              | 2,016           | 688             |
| Revenue from lease of properties received  |              | 1,215           | –               |
| Net gains from investment securities available-for-sale  |              | 121             | –               |
| Other revenues received  |              | 942             | 276             |
| Salaries and other employee benefits paid  |              | (2,315)         | (642)           |
| Management consulting fee expense paid   |              | (1,500)         | –               |
| General and administrative expenses paid   |              | (1,897)         | (482)           |
| Net changes in inventory   |              | (1,002)         | –               |
| Interest expense paid  |              | (2,029)         | (76)            |
| Other expenses paid  |              | (269)           | (524)           |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b> |              | <b>(4,718)</b>  | <b>(760)</b>    |
| <i>Net (increase)/ decrease in operating assets</i>  |              |                 |                 |
| Accounts receivables   |              | 441             | (282)           |
| Prepayments  |              | 519             | (1,165)         |
| Income tax assets  |              | –               | (15)            |
| Inventory  |              | (718)           | –               |
| Asset held for sale  |              | (3,567)         | –               |
| Other assets   |              | –               | (375)           |
| <i>Net increase / (decrease) in operating liabilities</i>                                      |              |                 |                 |
| Accounts payable   |              | (709)           | 982             |
| Advances received  |              | 1,686           | –               |
| Other liabilities  |              | 536             | 278             |
| <b>Net cash flows used in operating activities before income tax</b>                           |              | <b>(6,530)</b>  | <b>(1,337)</b>  |
| Corporate income tax paid  |              | –               | –               |
| <b>Net cash used in operating activities</b>   |              | <b>(6,530)</b>  | <b>(1,337)</b>  |
| <b>Cash flows from investing activities</b>  |              |                 |                 |
| Purchase of investment securities  |              | (3,666)         | (16)            |
| Purchase of investments in associates  | 12           | (4,418)         | (496)           |
| Proceeds from sale of investments in associates  | 12           | 1,451           | –               |
| Loans granted to associates  |              | 74              | –               |
| Purchases of investment property   | 10           | (11,091)        | (1,224)         |
| Subsidiaries acquired net of cash  |              | –               | (4,444)         |
| Sale of equity shares in subsidiaries  |              | –               | 17              |
| Proceeds from sale of property and equipment   |              | 2,157           | –               |
| Purchases of property and equipment  |              | (2,682)         | (5,456)         |
| Purchases of intangible assets   | 14           | (131)           | (52)            |
| <b>Net cash used in investing activities</b>   |              | <b>(18,306)</b> | <b>(11,671)</b> |
| <b>Cash flows from financing activities</b>  |              |                 |                 |
| Net changes in loans and borrowings  |              | 6,958           | 6,120           |
| Issuance of new shares   |              | 10,833          | 11,677          |
| Advances received from shareholders for increase in share capital                              |              | 7,804           | –               |
| <b>Net cash from financing activities</b>  |              | <b>25,295</b>   | <b>17,797</b>   |
| Effect of exchange rates changes on cash and cash equivalents                                  |              | 229             | –               |
| <b>Net increase in cash and cash equivalents</b>   |              | <b>988</b>      | <b>4,789</b>    |
| <b>Cash and cash equivalents, beginning</b>  | 5            | <b>4,789</b>    | –               |
| <b>Cash and cash equivalents, ending</b>   | 5            | <b>5,777</b>    | <b>4,789</b>    |

*The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.*

(Thousands of Georgian Lari)

## 1. Principal Activities

JSC Galt & Taggart Capital (the “Company”) is a joint stock company founded on 24 May 2006, under the laws of Georgia by the “Bank of Georgia” Group (the “BOG Group”). The BOG Group is comprised of entities incorporated in Georgia, Cyprus and Ukraine, its activity includes providing banking, leasing, insurance and brokerage services to corporate and individual customers.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates. The Company’s principal activities include investing in Georgian companies which are engaged in providing consumer services, real estate development and operations, and rendering of business services to companies involved in the Georgian consumer market (with the exception of financial services). Its principal subsidiaries are disclosed in Note 2.

The registered office of the Company is Chavchavadze avenue 74a., Tbilisi, Georgia.

As of 31 December 2007 and 31 December 2006 the following shareholders owned more than 2% of the outstanding shares of the Company. Other shareholders individually owned less than 2% of the outstanding shares.

| <b>Shareholder</b>            | <b>31 December<br/>2007, %</b> | <b>31 December<br/>2006, %</b> |
|-------------------------------|--------------------------------|--------------------------------|
| JSC Galt & Taggart Securities | 59.30%                         | 62.90%                         |
| JSC Bank of Georgia           | 15.60%                         | 14.30%                         |
| Sakaropel                     | 5.50%                          | –                              |
| Firebird Republics Fund Ltd.  | 4.19%                          | 2.76%                          |
| Firebird Avrora Fund Ltd.     | 4.19%                          | 2.76%                          |
| EastInvestor Ltd.             | 3.31%                          | 3.76%                          |
| Ewald Poellner                | 2.11%                          | 2.21%                          |
| Concentra Ltd.                | –                              | 5.52%                          |
| Other                         | 5.80%                          | 5.79%                          |
| <b>Total</b>                  | <b>100.00%</b>                 | <b>100.00%</b>                 |

As of 31 December 2007, members of the Supervisory Board and Board of Directors controlled 2,640 shares (0.01%) (2006: 24,167 shares or 0.06%) of the Company.

## 2. Basis of Preparation

### General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Group is required to maintain its records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of available-for-sale securities, investment property and land and buildings.

These consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), except per share amounts and unless otherwise indicated.

(Thousands of Georgian Lari)

## 2. Basis of Preparation (continued)

### Subsidiaries

The consolidated financial statements as of 31 December 2007 and 2006 include the following direct and indirect subsidiaries:

| Subsidiary                | 31 December<br>2007<br>Ownership/<br>voting, % | 31 December<br>2006<br>Ownership/<br>voting, % | Country | Date of<br>incorporation | Industry                    | Date of<br>acquisition |
|---------------------------|--|--|---------|--------------------------|-----------------------------|------------------------|
| JSC SB Outdoor and Indoor | 100.0%   | 100.0%   | Georgia | 09/06/2006               | Advertising                 | –                      |
| Intertour LLC             | 83.6%  | 83.6%  | Georgia | 29/03/1996               | Travel agency               | 06/06/2006             |
| Metro Service+ LLC        | 80.0%  | 80.0%  | Georgia | 10/05/2006               | Business servicing          | –                      |
| Direct Debit Georgia LLC  | 100.0%   | 100.0%   | Georgia | 22/02/2006               | Electronic payment services | –                      |
| JSC Prime Fitness         | 100.0%   | 100.0%   | Georgia | 03/07/2006               | Fitness centre              | 17/08/2006             |
| JSC SB Real Estate        | 100.0%   | 100.0%   | Georgia | 27/09/2006               | Real estate                 | –                      |
| SB Trade LLC              | 100.0%   | –  | Georgia | 26/02/2007               | Import and distribution     | –                      |
| SB Transport LLC          | 100.0%   | –  | Georgia | 20/02/2007               | Transportation              | –                      |
| Metronet LLC              | 80.0%  | –  | Georgia | 23/04/2007               | Communication services      | –                      |
| Vere + LLC                | 100.0%   | –  | Georgia | 21/05/1996               | Real estate                 | 06/02/2007             |
| Holiday Travel LLC        | 83.6%  | 83.6%  | Georgia | 11/02/2005               | Travel agency               | 04/09/2006             |

## 3. Summary of Significant Accounting Policies

### Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### *Acquisition of subsidiaries*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value the difference is recognised directly in the consolidated statement of operations.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

#### *Increases in ownership interests in subsidiaries*

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases at the date of increase in ownership interests are charged or credited to retained earnings.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated statement of operations, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### Financial assets

##### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated, and are effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated statement of operations.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of operations. However, interest calculated using the effective interest method is recognised in the consolidated statement of operations.

#### Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the balance sheet date, without any deduction for transaction costs. For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

*(Thousands of Georgian Lari)*

### 3. Summary of Significant Accounting Policies (continued)

#### Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts with banks and short-term deposits with credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

#### Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost of sold inventories is determined based on the weighted-average price of acquired goods.

#### Asset held for sale

Asset held for sale is measured at the lower of its carrying amount and fair value less estimated cost to sell.

#### Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of operations as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contract is not itself held for trading or designated at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated statement of operations.

#### Loans and borrowings

Loans and borrowings, which comprise of amounts due to credit institutions, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of operations when the borrowings are derecognised as well as through the amortisation process.

#### Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Allowances for impairment of financial assets

##### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of operations.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of operations, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of operations.

##### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of operations, is transferred from equity to the consolidated statement of operations. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of operations. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of operations if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognised in profit or loss.

#### De-recognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*(Thousands of Georgian Lari)*

### 3. Summary of Significant Accounting Policies (continued)

#### De-recognition of financial assets and liabilities (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of operations.

#### Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### Investment property

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment property is measured initially at cost, including subsequent costs. Subsequent to initial recognition, investment property is stated to fair value. Gains or losses arising from changes in fair values of investment property are included in the consolidated statement of operations as "Net gains from revaluation of investment property".

#### Property and equipment

Property and equipment, except for land and buildings, are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Land and buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Property and equipment (continued)

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of operations, in which case the increase is recognised in the consolidated statement of operations. A revaluation deficit is recognised in the consolidated statement of operations, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the devalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

|                                | <u>Years</u> |
|--------------------------------|--------------|
| Buildings                      | 50           |
| Furniture and fixtures         | 10           |
| Computers and office equipment | 5            |
| Motor vehicles                 | 5            |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

#### Goodwill

Goodwill acquired in a business combination is 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 of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*(Thousands of Georgian Lari)*

### 3. Summary of Significant Accounting Policies (continued)

#### Other intangible assets

The Group's other intangible assets include computer software. Computer software is recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

#### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

#### Retirement and other employee benefit obligations

The Group provides management and employees with defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

#### Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

#### Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segments) or in providing products or services within particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The Group determines that the primary and secondary segments are business and geographical, respectively.

#### Contingencies

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of 31 December 2007, the Group did not record any contingent liabilities.

#### Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Revenue and expense recognition (continued)

##### *Fee and commission income*

Fees earned for the provision of services over a period of time are accrued over that period. The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income includes:

- Income from sale of airline tickets;
- Income from recreation services provided;
- Income from sale of metropolitan coins;
- Income from tourism services;
- Income from electronic payment services;

##### *Revenue from lease of properties*

Rental income arising from operating leases on investment properties is recognized in the consolidated statement of operations on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

##### *Dividend income*

Revenue is recognised when the Group's right to receive the payment is established.

#### Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official NBG exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 10 May 2008, 31 December 2007 and 31 December 2006 were 1.4520, 1.5916 and 1.714 Lari to USD 1 and 2.2271, 2.3315 and 2.256 Lari to EUR 1, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the balance sheet date and, their statements of operations are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated statement of operations.

#### Changes in accounting policies

The Group applied the same accounting policies with those in prior year, except as disclosed below:

##### *Investment property*

Effective 1 January 2007, the Group started to present investment property using fair value model. Adoption of this change in accounting policy did not have any significant effect on the 2006 consolidated financial statements of the Group.

#### Adoption of new or revised standards and interpretations

The Group has adopted the following new and amended IFRSs and IFRIC Interpretations during the year. Adoption of these Standards and Interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Adoption of new or revised standards and interpretations (continued)

##### *IFRS 7 'Financial Instruments: Disclosures' and amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'*

IFRS 7 requires additional disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. In particular, it specifies minimum disclosures about credit risk, liquidity risk and market risk. IFRS 7 replaces IAS 30 'Disclosures in the Financial Statements of Companies and Similar Financial Institutions' and the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'.

The amendment to IAS 1 introduces disclosures relating to the level of an entity's capital and how it is managed.

The new disclosures are included throughout the consolidated financial statements.

##### *IFRIC 8 'Scope of IFRS 2'*

IFRIC 8 clarifies that IFRS 2 'Share-Based Payments' applies to any arrangement by which equity securities are granted or liabilities (based on the value of an entity's equity securities) are incurred and the identifiable consideration appears to be less than the fair value of the equity securities granted or the liabilities incurred. The adoption of IFRIC 8 did not have any impact on the consolidated financial statements of the Group.

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

IFRIC 9 requires an entity to assess upon entering into a contract, whether this contains an embedded derivative and prohibits reassessment unless there is a change to the contract terms as a result of which there are significant changes in the cash flows. The adoption of IFRIC 9 did not have any impact on the consolidated financial statements of the Group.

##### *IFRIC 10 'Interim Financial Reporting and Impairment'*

IFRIC 10 provides that, should any impairment losses be recognized in the interim financial statements in relation to goodwill, available-for-sale investments in equity securities or unquoted equity securities carried at cost, these impairment losses may not be reversed in subsequent interim periods or when preparing the annual financial statements. The adoption of IFRIC 10 did not have any impact on the consolidated financial statements of the Group.

#### Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

##### *IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009)*

IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and statement of operations and entities will need to provide explanations and reconciliations of the differences. The Group will make the necessary changes to the presentation of its operating segments once it assesses the impact of this Standard on their consolidated financial statements.

##### *IFRIC 11, IFRS 2 'Group and Treasury Share Transactions' (effective for annual periods beginning on or after 1 March 2007)*

IFRIC 11 requires arrangements whereby an employee is granted options to buy equity shares, to be accounted for as equity-settled schemes by an entity even if the entity chooses or is required to buy those equity shares from another party, or the shareholders of the entity provide the equity instruments granted. The interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent.

##### *IFRIC 12 'Service Concession Arrangements' (effective for annual periods beginning on or after 1 January 2008)*

IFRIC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognise a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Group.

(Thousands of Georgian Lari)

### 3. Summary of Significant Accounting Policies (continued)

#### Standards and interpretations that are issued but not yet effective (continued)

*Amendment to IAS 23 'Borrowing Costs' (effective for annual periods beginning on or after 1 January 2009)*

The option in the current standard to expense borrowing costs to the statement of operations in case of a qualifying asset has been eliminated. All borrowing costs must be capitalised if they are directly attributable to the acquisition or construction of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

*IFRIC 13 'Customer Loyalty Programmes' (effective for annual periods beginning on or after 1 July 2008)*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this Interpretation will not have a material impact on their consolidated financial statements at the date of adoption.

*IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective for annual periods beginning on or after 1 January 2008)*

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 'Employee Benefits'. It also explains how this limit, also referred to as the 'asset ceiling test', may be influenced by a minimum funding requirement and aims to standardise current practice. The Group expects that this amendment will have no impact on their consolidated financial statements.

*Further Amendment to IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009)*

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The main revisions are the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with 'other comprehensive income' and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Group will make the necessary changes to the presentation of its consolidated financial statements in 2009.

*Amendment to IFRS 2 'Share Based Payment – Vesting Conditions and Cancellations' (effective for annual periods beginning on or after 1 January 2009)*

The Amendment clarifies two issues. The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than vesting conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or a counterparty. The Group will assess the impact of this amendment on their consolidated financial statements at the date of adoption.

*Revisions to IFRS 3 'Business Combinations' and Amendment to IAS 27 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2009)*

Main changes to the existing standards refer to: (a) addition of an option to measure minority interests (now called 'non-controlling interests') at fair value; (b) recognition of goodwill for step acquisitions; (c) recognition of acquisition-related costs; (d) recognition of contingent consideration; (e) transactions with non-controlling interests which do not result in loss of control; (f) allocation of subsidiary's losses between controlling and non-controlling interests; (g) re-measurement of retained interest on loss of control of a subsidiary. The Group will assess the impact of the revision on their consolidated financial statements at the date of adoption.

*Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009)*

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

(Thousands of Georgian Lari)

#### 4. Significant Accounting Estimates

##### Estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are discussed below.

##### *Contingent liabilities*

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of 31 December 2007, the Group did not record any contingent liabilities.

##### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2007 was GEL 896 (2006: 896). More details are provided in Note 14.

##### *Impairment of long-lived assets*

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

##### *Impairment of investments*

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

#### 5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

|  | <u>2007</u>         | <u>2006</u>         |
|--|---------------------|---------------------|
| Cash on hand                                 | 20                  | 30                  |
| Cash at bank denominated in Georgian Lari    | 1,615               | 4,742               |
| Cash at bank denominated in foreign currency | 642                 | 17                  |
| Short-term deposits                          | 3,500               | –                   |
| <b>Cash and cash equivalents</b>             | <u><u>5,777</u></u> | <u><u>4,789</u></u> |

Cash at banks earns 5.8% interest (2006: 0%). Short-term deposits are made for varying periods between 1 day and 3 months, depending on the immediate cash requirements of the Group, and earn annual interest ranging from 5% to 8% per annum.

(Thousands of Georgian Lari)

**6. Accounts Receivables**

|  | <u>2007</u> | <u>2006</u> |
|--|-------------|-------------|
| Accounts receivables                     | 538         | 460         |
| Receivables from related parties         | 42          | 29          |
| <b>Total accounts receivables, gross</b> | <b>580</b>  | <b>489</b>  |
| Less: Allowance for impairment           | –           | 48          |
| <b>Total accounts receivables, net</b>   | <b>580</b>  | <b>441</b>  |

Accounts receivables are non-interest bearing and are generally on 1-30 days' terms. As at 31 December 2007 accounts receivable with nominal value of GEL 0 (2006: GEL 48) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

|                         | <u>Total</u> |
|-------------------------|--------------|
| <b>24 May 2006</b>      | –            |
| Charge for the period   | 48           |
| <b>31 December 2006</b> | <b>48</b>    |
| Amounts written off     | (48)         |
| <b>31 December 2007</b> | <b>–</b>     |

As at 31 December 2007 and 2006 the analysis of accounts receivables that were past due but not impaired is as follows:

|                         | <i>Neither past<br/>due nor<br/>impaired</i> | <i>Past due but not impaired</i> |                       |                       |                        |                         | <i>&gt;120<br/>days</i> |
|-------------------------|--|----------------------------------|-----------------------|-----------------------|------------------------|-------------------------|-------------------------|
|                         |  | <i>&lt;30<br/>days</i>           | <i>30-60<br/>days</i> | <i>60-90<br/>days</i> | <i>90-120<br/>days</i> |                         |                         |
| <b>Total</b>            | <b>Total</b>                                 | <b>&lt;30<br/>days</b>           | <b>30-60<br/>days</b> | <b>60-90<br/>days</b> | <b>90-120<br/>days</b> | <b>&gt;120<br/>days</b> |                         |
| <b>31 December 2007</b> | <b>580</b>                                   | 512                              | 10                    | 10                    | –                      | 19                      | 29                      |
| <b>31 December 2006</b> | <b>441</b>                                   | 393                              | 4                     | 4                     | 7                      | 3                       | 30                      |

**7. Prepayments**

As of 31 December 2007 and 2006 prepayments comprise:

|  | <u>2007</u>  | <u>2006</u>  |
|--|--------------|--------------|
| Prepayments for construction and repair works        | 406          | 221          |
| Prepayments for acquisitions                         | 238          | –            |
| Prepayments for lease of properties                  | 163          | 138          |
| Prepayments to travel agencies and airline companies | 124          | –            |
| Prepayments for software installation                | –            | 575          |
| Other prepayments                                    | 162          | 301          |
| <b>Prepayments</b>                                   | <b>1,093</b> | <b>1,235</b> |

Prepayments for construction and repair works represent advances paid to contractor companies for development, construction and repair works of investment properties. Prepayments for acquisitions include GEL 191 prepaid for acquisition of 51% equity interest in JSC Planeta Forte.

**8. Inventories**

|  | <u>2007</u> | <u>2006</u> |
|--|-------------|-------------|
| Merchandise (at net realizable value)                                  | 701         | –           |
| Production supplies (at cost)  | 15          | –           |
| <b>Total inventories at the lower of cost and net realizable value</b> | <b>716</b>  | <b>–</b>    |

The amount of write-down of inventories recognized as an expense is GEL 22 (2006: 0) which is recognized in net change in inventory.

(Thousands of Georgian Lari)

## 9. Asset Held for Sale

Asset held for sale represents a land plot located in one of the prestigious areas of Tbilisi, Georgia. The Group has signed a memorandum of understanding with JSC Bank of Georgia in order to sell the asset. It is anticipated that the transaction will take place in 2008.

The fair value of the land as of 31 December 2007 is GEL 14,605, while the carrying amount is GEL 4,145. Consequently, the land is measured at carrying amount and no impairment losses have been recognized in the Group's statement of operations during the year.

## 10. Investment Property

|  | <u>2007</u>          | <u>2006</u>         |
|--|----------------------|---------------------|
| <b>At 1 January 2007 / 24 May 2006</b>           | <b>1,224</b>         | –                   |
| Purchases  | 11,091               | 1,224               |
| Transfers from property and equipment (Note 13)  | 6,255                | –                   |
| Net change in fair value through profit and loss | 19,052               | –                   |
| Fair value adjustment through equity             | 1,852                | –                   |
| <b>At 31 December</b>                            | <b><u>39,474</u></b> | <b><u>1,224</u></b> |

Investment properties are stated at fair value, which has been determined based on the valuation performed by Georgian Valuation Company, an accredited independent appraiser, as at 31 December 2007. Georgian Valuation Company is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

Investment property in the amount of GEL 24,403 (2006: nil) is pledged as a collateral against the Group's short-term and long-term loans and borrowings. (Note 19)

## 11. Investment Securities - Available-for-Sale

Available-for-sale securities comprise:

|                                      | <u>2007</u>         | <u>2006</u>       |
|--------------------------------------|---------------------|-------------------|
| Ordinary shares - unquoted           | 5,561               | 334               |
| Ordinary shares – quoted             | 56                  | 16                |
| <b>Available-for-sale securities</b> | <b><u>5,617</u></b> | <b><u>350</u></b> |

As of 31 December 2007 unquoted shares include investments in JSC Populi, JSC Telavi Wine Cellar and JSC Georgian Card in the amount of GEL 3,998, GEL 1,555 and GEL 8, respectively (2006: GEL 334 - JSC Populi).

Available-for-sale securities in the amount of GEL 220 (2006: nil) is pledged as a collateral against the Group's short-term and long-term loans and borrowings. (Note 19)

Unquoted shares

The fair value of the unquoted ordinary shares has been estimated using valuation techniques based on assumptions that are supported by recent arms-length trades and observable market prices.

Quoted shares

The fair value of the quoted ordinary shares is determined by reference to published price quotations in an active market.

(Thousands of Georgian Lari)

**12. Investments in Associates**

The following associates are accounted for under the equity method:

**2007**

| <b>Associates</b>  | <b>Ownership /<br/>voting, %</b> | <b>Country</b> | <b>Date of<br/>incorporation</b> | <b>Industry</b> | <b>Date of<br/>acquisition</b> |
|--------------------|----------------------------------|----------------|----------------------------------|-----------------|--------------------------------|
| JSC Teliani Valley | 25.17%                           | Georgia        | 30/06/2000                       | Wine production | 13/02/2007                     |
| JSC iCall          | 27.03%                           | Georgia        | 22/03/2005                       | Call center     | 22/11/2006                     |
| JSC One Team       | 25.00%                           | Georgia        | 23/04/2007                       | Entertainment   | N/A                            |
| Matsne +           | 28.00%                           | Georgia        | 29/06/2005                       | Advertising     | 15/12/2006                     |

**2006**

| <b>Associates</b> | <b>Ownership /<br/>voting, %</b> | <b>Country</b> | <b>Date of<br/>incorporation</b> | <b>Industry</b> | <b>Date of<br/>acquisition</b> |
|-------------------|----------------------------------|----------------|----------------------------------|-----------------|--------------------------------|
| JSC iCall         | 27.03%                           | Georgia        | 22/03/2005                       | Call center     | 22/11/2006                     |
| Matsne +          | 28.00%                           | Georgia        | 29/06/2005                       | Advertising     | 15/12/2006                     |

Movements in investments in associates were as follows:

|   | <b>2007</b>  | <b>2006</b> |
|---|--------------|-------------|
| <b>Investments in associates, beginning of the year</b> | <b>496</b>   | –           |
| Purchases   | 4,418        | 496         |
| Disposal  | (700)        | –           |
| Share of profit   | 134          | –           |
| <b>Investments in associates, end of the year</b>       | <b>4,348</b> | <b>496</b>  |

In 2007 the Group sold 7% equity interest in JSC Teliani Valley for GEL 1,451. Gain from the transaction amounted to GEL 751.

Associate company - JSC Teliani Valley is listed on the Georgian Stock Exchange. As of 31 December 2007 the fair value of the investment in JSC Teliani Valley was GEL 12,996.

The following table summarises certain financial information of the associates:

| <b>Aggregated assets and liabilities of associates</b> | <b>2007</b>  | <b>2006</b> |
|--|--------------|-------------|
| Assets   | 14,337       | 166         |
| Liabilities  | (5,722)      | (147)       |
| <b>Net assets</b>                                      | <b>8,615</b> | <b>19</b>   |
| <b>Aggregated revenue and profit of associates</b>     | <b>2007</b>  | <b>2006</b> |
| Revenue  | 9,530        | –           |
| Profit   | 641          | –           |

Investments in associates at 31 December 2007 include goodwill of GEL 2,177 (2006: GEL 477).

(Thousands of Georgian Lari)

**13. Property and Equipment**

The movements in property and equipment during 2007 were as follows:

|                                 | <i>Land &amp; Buildings</i> | <i>Furniture &amp; fixtures</i> | <i>Computers &amp; office equipment</i> | <i>Motor vehicles</i> | <i>Leasehold improvements</i> | <i>Total</i>  |
|---------------------------------|-----------------------------|---------------------------------|---|-----------------------|-------------------------------|---------------|
| <b>Cost</b>                     |                             |                                 |   |                       |                               |               |
| <b>31 December 2006</b>         | <b>11,379</b>               | <b>1,594</b>                    | <b>6</b>                                | <b>5</b>              | <b>210</b>                    | <b>13,194</b> |
| Additions                       | 1,624                       | 1,153                           | 65                                      | 932                   | 302                           | 4,076         |
| Disposals                       | (1,816)                     | (26)                            | –                                       | (4)                   | –                             | (1,846)       |
| Transfer to investment property | (6,255)                     | –                               | –                                       | –                     | –                             | (6,255)       |
| Revaluation                     | 1,885                       | –                               | –                                       | –                     | –                             | 1,885         |
| <b>31 December 2007</b>         | <b>6,817</b>                | <b>2,721</b>                    | <b>71</b>                               | <b>933</b>            | <b>512</b>                    | <b>11,054</b> |
| <b>Accumulated depreciation</b> |                             |                                 |   |                       |                               |               |
| <b>31 December 2006</b>         | <b>47</b>                   | <b>48</b>                       | <b>–</b>                                | <b>1</b>              | <b>–</b>                      | <b>96</b>     |
| Depreciation charge             | 52                          | 274                             | 9                                       | 77                    | 56                            | 468           |
| Disposals                       | (38)                        | –                               | –                                       | –                     | –                             | (38)          |
| Revaluation                     | (53)                        | –                               | –                                       | –                     | –                             | (53)          |
| <b>31 December 2007</b>         | <b>8</b>                    | <b>322</b>                      | <b>9</b>                                | <b>78</b>             | <b>56</b>                     | <b>473</b>    |
| <b>Net book value:</b>          |                             |                                 |   |                       |                               |               |
| <b>31 December 2006</b>         | <b>11,332</b>               | <b>1,546</b>                    | <b>6</b>                                | <b>4</b>              | <b>210</b>                    | <b>13,098</b> |
| <b>31 December 2007</b>         | <b>6,809</b>                | <b>2,399</b>                    | <b>62</b>                               | <b>855</b>            | <b>456</b>                    | <b>10,581</b> |

The movements in property and equipment during 2006 were as follows:

|   | <i>Land &amp; Buildings</i> | <i>Furniture &amp; fixtures</i> | <i>Computers &amp; office equipment</i> | <i>Motor vehicles</i> | <i>Leasehold improvements</i> | <i>Total</i>  |
|---|-----------------------------|---------------------------------|---|-----------------------|-------------------------------|---------------|
| <b>Cost</b>                               |                             |                                 |   |                       |                               |               |
| <b>24 May 2006</b>                        | –                           | –                               | –                                       | –                     | –                             | –             |
| Acquisition through business combinations | 3,300                       | 692                             | 6                                       | –                     | –                             | 3,998         |
| Additions                                 | 8,079                       | 902                             | –                                       | 5                     | 210                           | 9,196         |
| Disposals                                 | –                           | –                               | –                                       | –                     | –                             | –             |
| <b>31 December 2006</b>                   | <b>11,379</b>               | <b>1,594</b>                    | <b>6</b>                                | <b>5</b>              | <b>210</b>                    | <b>13,194</b> |
| <b>Accumulated depreciation</b>           |                             |                                 |   |                       |                               |               |
| <b>24 May 2006</b>                        | –                           | –                               | –                                       | –                     | –                             | –             |
| Depreciation charge                       | 47                          | 48                              | –                                       | 1                     | –                             | 96            |
| Disposals                                 | –                           | –                               | –                                       | –                     | –                             | –             |
| <b>31 December 2006</b>                   | <b>47</b>                   | <b>48</b>                       | <b>–</b>                                | <b>1</b>              | <b>–</b>                      | <b>96</b>     |
| <b>Net book value:</b>                    |                             |                                 |   |                       |                               |               |
| <b>24 May 2006</b>                        | –                           | –                               | –                                       | –                     | –                             | –             |
| <b>31 December 2006</b>                   | <b>11,332</b>               | <b>1,546</b>                    | <b>6</b>                                | <b>4</b>              | <b>210</b>                    | <b>13,098</b> |

The Group engaged Georgian Valuation Company, an accredited independent appraiser, to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence. The latest date of the revaluation was 31 December 2007.

If the land and buildings were measured using the cost model, the carrying amounts as of 31 December 2007 and 31 December 2006 would be as follows:

|   | <b>2007</b>  | <b>2006</b>   |
|---|--------------|---------------|
| Cost                                    | 4,932        | 11,379        |
| Accumulated depreciation and impairment | (61)         | (47)          |
| <b>Net carrying amount</b>              | <b>4,871</b> | <b>11,332</b> |

Property and equipment in the amount of GEL 8,269 (2006: 5,141) is pledged as a collateral against the Group's short-term and long-term loans and borrowings. (Note 19)

*(Thousands of Georgian Lari)***14. Intangible Assets**

Movements in intangible assets during 2007 were as follows:

|  | <i>Goodwill</i> | <i>Computer software</i> | <i>Total</i> |
|--|-----------------|--------------------------|--------------|
| <b>Cost</b>                                    |                 |                          |              |
| <b>31 December 2006</b>                        | 896             | 52                       | 948          |
| Additions                                      | –               | 131                      | 131          |
| <b>31 December 2007</b>                        | <u>896</u>      | <u>183</u>               | <u>1,079</u> |
| <b>Accumulated amortization and impairment</b> |                 |                          |              |
| <b>31 December 2006</b>                        | –               | 2                        | 2            |
| Charge for amortization                        | –               | 11                       | 11           |
| <b>31 December 2007</b>                        | <u>–</u>        | <u>13</u>                | <u>13</u>    |
| <b>Net book value:</b>                         |                 |                          |              |
| <b>31 December 2006</b>                        | <u>896</u>      | <u>50</u>                | <u>946</u>   |
| <b>31 December 2007</b>                        | <u>896</u>      | <u>170</u>               | <u>1,066</u> |

Movements in intangible assets during 2006 were as follows:

|  | <i>Goodwill</i> | <i>Computer software</i> | <i>Total</i> |
|--|-----------------|--------------------------|--------------|
| <b>Cost</b>                                    |                 |                          |              |
| <b>24 May 2006</b>                             | –               | –                        | –            |
| Acquisition through business combinations      | 896             | –                        | 896          |
| Additions                                      | –               | 52                       | 52           |
| <b>31 December 2006</b>                        | <u>896</u>      | <u>52</u>                | <u>948</u>   |
| <b>Accumulated amortization and impairment</b> |                 |                          |              |
| <b>24 May 2006</b>                             | –               | –                        | –            |
| Charge for amortization                        | –               | 2                        | 2            |
| <b>31 December 2006</b>                        | <u>–</u>        | <u>2</u>                 | <u>2</u>     |
| <b>Net book value:</b>                         |                 |                          |              |
| <b>24 May 2006</b>                             | <u>–</u>        | <u>–</u>                 | <u>–</u>     |
| <b>31 December 2006</b>                        | <u>896</u>      | <u>50</u>                | <u>946</u>   |

As of 31 December 2007 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Intertour
- JSC Prime Fitness

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will not grow and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital (“WACC”) of each particular cash-generating unit.

(Thousands of Georgian Lari)

**14. Intangible Assets (continued)**

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units follows:

|                   | WACC applied<br>for impairment | Carrying amount of goodwill |                     |
|-------------------|--------------------------------|-----------------------------|---------------------|
|                   |                                | 31 December<br>2007         | 31 December<br>2006 |
| JSC Intertour     | 14%                            | 652                         | 652                 |
| JSC Prime Fitness | 16%                            | 244                         | 244                 |
| <b>Total</b>      |                                | <b>896</b>                  | <b>896</b>          |

**15. Taxation**

The corporate income tax benefit comprises:

|  | 2007         | 2006         |
|--|--------------|--------------|
| Current income tax expense   | –            | 2            |
| Deferred tax benefit – origination and reversal of temporary differences | 3,151        | (113)        |
| Less: Deferred tax recognised directly in equity                         | (702)        | –            |
| <b>Income tax expense (benefit)</b>                                      | <b>2,449</b> | <b>(111)</b> |

Georgian legal entities must file individual tax declarations. The income tax rate applicable to the Group's income is 20%. Corporate income tax rate in Georgia was reduced from 20% to 15% effective from 1 January 2008. Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As of 31 December 2007 and 2006 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

|   | 2007          | 2006         |
|---|---------------|--------------|
| <b>Profit before income tax expense</b>                               | <b>14,718</b> | <b>(975)</b> |
| Statutory tax rate  | 20%           | 20%          |
| <b>Theoretical income tax expense (benefit) at the statutory rate</b> | <b>2,944</b>  | <b>(195)</b> |
| Permanent differences   | –             | (42)         |
| Change in unrecognized deferred tax assets                            | 215           | 173          |
| Effect of reduction in tax rate                                       | (796)         | –            |
| Non-taxable income:   |               |              |
| - Associates income/(loss)  | 21            | (3)          |
| - other   | –             | (44)         |
| <b>Non-tax deductible expenditures</b>                                | <b>65</b>     | <b>-</b>     |
| <b>Income tax expense (benefit)</b>                                   | <b>2,449</b>  | <b>(111)</b> |

Georgia currently has an updated tax code which has been adopted and put in force in 2005. Applicable taxes include corporate income tax (profits tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

(Thousands of Georgian Lari)

**15. Taxation (continued)**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years follows:

|  | <i>Origination and reversal<br/>of temporary differences</i> |   |                               | <i>Effect of<br/>business<br/>combi-<br/>nation</i> | <i>Origination and reversal<br/>of temporary differences</i> |   |                               |                |
|--|--|---|-------------------------------|---|--|---|-------------------------------|----------------|
|  | <i>2005</i>  | <i>In the<br/>statement of<br/>operations</i> | <i>Directly<br/>in equity</i> |   | <i>2006</i>  | <i>In the<br/>statement of<br/>operations</i> | <i>Directly<br/>in equity</i> | <i>2007</i>    |
| <b>Tax effect of deductible<br/>temporary differences:</b> |  |   |                               |   |  |   |                               |                |
| Tax losses carried forward                                 | -  | 295   | -                             | -   | 295  | 647   | -                             | 942            |
| Accounts receivables                                       | -  | 13  | -                             | 36  | 49   | (48)  | -                             | 1              |
| Accounts payable   | -  | 72  | -                             | -   | 72   | (72)  | -                             | -              |
| Inventory  | -  | -   | -                             | -   | -  | 3   | -                             | 3              |
| <b>Gross deferred tax assets</b>                           | -  | <b>380</b>                                    | -                             | <b>36</b>   | <b>416</b>   | <b>530</b>                                    | -                             | <b>946</b>     |
| Unrecognized deferred tax assets                           | -  | (173)   | -                             | -   | (173)  | 52  | -                             | (121)          |
| <b>Deferred tax assets</b>                                 | -  | <b>207</b>                                    | -                             | <b>36</b>   | <b>243</b>   | <b>582</b>                                    | -                             | <b>825</b>     |
| <b>Tax effect of taxable<br/>temporary differences:</b>    |  |   |                               |   |  |   |                               |                |
| Property and equipment                                     | -  | (89)  | -                             | -   | (89)   | (83)  | (291)                         | (463)          |
| Investment property  | -  | -   | -                             | -   | -  | (2,925)                                       | (278)                         | (3,203)        |
| Intangible assets  | -  | (3)   | -                             | -   | (3)  | 1   | -                             | (2)            |
| Accounts receivables                                       | -  | -   | -                             | -   | -  | (26)  | -                             | (26)           |
| Available for sale securities                              | -  | -   | -                             | -   | -  | 1   | (133)                         | (132)          |
| Other liabilities  | -  | -   | -                             | -   | -  | (1)   | -                             | (1)            |
| Prepayments  | -  | (2)   | -                             | -   | (2)  | 2   | -                             | -              |
| <b>Deferred tax liabilities</b>                            | -  | <b>(94)</b>                                   | -                             | -   | <b>(94)</b>  | <b>(3,031)</b>                                | <b>(702)</b>                  | <b>(3,827)</b> |
| <b>Net deferred tax assets<br/>(liabilities)</b>           |  | <b>113</b>                                    | -                             | <b>36</b>   | <b>149</b>   | <b>(2,449)</b>                                | <b>(702)</b>                  | <b>(3,002)</b> |

As of 31 December tax assets and liabilities consist of the following:

|                          | <i>2007</i>  | <i>2006</i> |
|--------------------------|--------------|-------------|
| Current tax assets       | -            | 13          |
| Deferred tax assets      | 263          | 149         |
| <b>Tax assets</b>        | <b>263</b>   | <b>162</b>  |
| Current tax liabilities  | -            | -           |
| Deferred tax liabilities | 3,265        | -           |
| <b>Tax liabilities</b>   | <b>3,265</b> | <b>-</b>    |

**16. Other Assets and Liabilities**

Other assets (non-current) comprise:

|                                | <i>2007</i> | <i>2006</i> |
|--------------------------------|-------------|-------------|
| Operating taxes receivable     | 361         | 503         |
| Loan receivable from associate | 74          | -           |
| Other                          | 8           | 1           |
| <b>Other assets</b>            | <b>443</b>  | <b>504</b>  |

Other liabilities (current) comprise:

|  | <i>2007</i>  | <i>2006</i> |
|--|--------------|-------------|
| Accrued asset management fee expense                         | 504          | -           |
| Accruals for employee compensation                           | 498          | -           |
| Payables for settlement operations with Tbilisi Metropolitan | 389          | -           |
| Derivative liabilities                                       | 209          | 201         |
| Property tax payable   | 115          | 25          |
| Other taxes payable  | 46           | 89          |
| Other  | 118          | 20          |
| <b>Other liabilities</b>                                     | <b>1,879</b> | <b>335</b>  |

(Thousands of Georgian Lari)

**17. Accounts Payable**

|  | <u>2007</u>         | <u>2006</u>         |
|--|---------------------|---------------------|
| Payables for purchases of property and equipment                     | 1,394               | –                   |
| Payables to airline companies  | 866                 | 754                 |
| Payables for purchases of investment securities - available-for-sale | 712                 | –                   |
| Payable for purchase of asset held for sale                          | 578                 | –                   |
| Payable for inventory purchases                                      | 397                 | –                   |
| Payables for leased properties                                       | 92                  | –                   |
| Payables to related parties  | 10                  | –                   |
| Payables for acquisition of automated system of metropolitan         | –                   | 767                 |
| Other  | 114                 | 168                 |
| <b>Accounts payable</b>  | <b><u>4,163</u></b> | <b><u>1,689</u></b> |

Accounts payable are non-interest bearing and are normally settled on 30-days terms. Payables for purchases of investment securities - available-for-sale comprise payables for acquisition of 19.96% equity interest in JSC Telavi Wine Cellar.

**18. Advances Received from Shareholders for Increase in Share Capital**

Advances received from shareholders for increase in share capital represent prepayments received from the prospective shareholder of the Company's wholly-owned subsidiary, JSC SB Real Estate, in the amount of GEL 7,655. JSC SB Real Estate together with the Company has signed a Memorandum of Understanding with Karit Investment Group Georgia to transfer its newly issued 26,550,447 (32%) ordinary shares in exchange for USD 4,809 thousand. However, as of 31 December 2007 the transaction has not been completed yet, although JSC SB Real Estate has received respective funds from Karit Investment Group Georgia. The transaction was completed subsequent to balance sheet date (Note 31).

**19. Loans and Borrowings**

Current/short-term loans and borrowings were comprised of:

| <u>As of 31 December 2007</u>                                    |                           |                             |                 |                                |                                    | <u>GEL</u>                            |
|--|---------------------------|-----------------------------|-----------------|--------------------------------|------------------------------------|---------------------------------------|
| <i>Credit institution</i>  | <i>Date of loan grant</i> | <i>Contractual maturity</i> | <i>Currency</i> | <i>Interest rate per annum</i> | <i>Amount in original currency</i> | <i>equivalent at 31 December 2007</i> |
| JSC Bank of Georgia (*)  | 7-Jun-07                  | 6-Jun-08                    | USD             | 14%                            | 2,500                              | 2,933                                 |
| JSC Bank of Georgia (*)  | 2-Feb-07                  | 2-Feb-08                    | GEL             | 12%                            | 1,629                              | 1,644                                 |
| JSC Bank of Georgia  | 16-Jul-07                 | 16-Jan-08                   | GEL             | 14.5%                          | 536                                | 443                                   |
| JSC Bank of Georgia (*)  | 5-Sep-07                  | 5-Sep-08                    | GEL             | 14.5%                          | 200                                | 225                                   |
| JSC Bank of Georgia  | 18-Dec-07                 | 2-Oct-08                    | GEL             | 14.5%                          | 60                                 | 60                                    |
| JSC Bank of Georgia  | 15-Nov-07                 | 15-Feb-08                   | GEL             | 10%                            | 2                                  | 2                                     |
| Adjustment for current portion of long-term loans and borrowings |                           |                             |                 |                                |                                    | 183                                   |
| <b>Total</b>   |                           |                             |                 |                                |                                    | <b><u>5,490</u></b>                   |

\* - The loans are secured by the Group's investment securities - available-for-sale, property and equipment and investment property with aggregate fair values of GEL 220, GEL 633 and GEL 6,526 respectively.

| <u>As of 31 December 2006</u> |                           |                             |                 |                                |                                    | <u>GEL</u>                            |
|-------------------------------|---------------------------|-----------------------------|-----------------|--------------------------------|------------------------------------|---------------------------------------|
| <i>Credit institution</i>     | <i>Date of loan grant</i> | <i>Contractual maturity</i> | <i>Currency</i> | <i>Interest rate per annum</i> | <i>Amount in original currency</i> | <i>equivalent at 31 December 2006</i> |
| JSC Bank of Georgia (*)       | 24-Nov-06                 | 22-Nov-07                   | GEL             | 14%                            | 3,945                              | 4,002                                 |
| JSC Bank of Georgia (*)       | 8-Nov-06                  | 8-Nov-07                    | GEL             | 12%                            | 1,114                              | 1,118                                 |
| JSC Bank of Georgia (*)       | 7-Sep-06                  | 7-Mar-07                    | GEL             | 12%                            | 628                                | 633                                   |
| JSC Bank of Georgia (*)       | 14-Aug-06                 | 9-Feb-07                    | GEL             | 12%                            | 126                                | 127                                   |
| JSC Bank of Georgia           | 1-Aug-06                  | 1-Aug-07                    | GEL             | 14%                            | 150                                | 89                                    |
| JSC Bank of Georgia (*)       | 21-Dec-06                 | 21-Jun-07                   | USD             | 14%                            | 33                                 | 58                                    |
| <b>Total</b>                  |                           |                             |                 |                                |                                    | <b><u>6,027</u></b>                   |

\* - The loans are secured by the Group's property and equipment with aggregate balance value of GEL 5,002.

(Thousands of Georgian Lari)

**19. Loans and Borrowings (continued)**

Non-current and long-term loans and borrowings were comprised of:

| <b>As of 31 December 2007</b>                                    |                           |                             |                 |                                |                                    | <b>GEL</b>                            |
|--|---------------------------|-----------------------------|-----------------|--------------------------------|------------------------------------|---------------------------------------|
| <b>Credit institution</b>  | <b>Date of loan grant</b> | <b>Contractual maturity</b> | <b>Currency</b> | <b>Interest rate per annum</b> | <b>Amount in original currency</b> | <b>equivalent at 31 December 2007</b> |
| JSC Bank of Georgia (*)  | 5-Feb-07                  | 5-Feb-10                    | USD             | 14%                            | 3,500                              | 5,626                                 |
| JSC Bank of Georgia (*)  | 29-Dec-07                 | 6-Dec-10                    | GEL             | 14%                            | 980                                | 982                                   |
| JSC Bank of Georgia  | 16-Aug-07                 | 20-Mar-12                   | USD             | 14%                            | 320                                | 537                                   |
| JSC Bank of Georgia (*)  | 19-Oct-07                 | 19-Oct-17                   | USD             | 14%                            | 174                                | 279                                   |
| JSC Bank of Georgia (*)  | 11-Oct-06                 | 13-Dec-12                   | GEL             | 11%                            | 185                                | 186                                   |
| Adjustment for current portion of long-term loans and borrowings |                           |                             |                 |                                |                                    | (183)                                 |
| <b>Total</b>   |                           |                             |                 |                                |                                    | <b>7,427</b>                          |

\* - The loans are secured by the Group's property and equipment and investment property with aggregate fair values of GEL 7,636 and GEL 17,877 respectively.

| <b>As of 31 December 2006</b> |                           |                             |                 |                                |                                    | <b>GEL</b>                            |
|-------------------------------|---------------------------|-----------------------------|-----------------|--------------------------------|------------------------------------|---------------------------------------|
| <b>Credit institution</b>     | <b>Date of loan grant</b> | <b>Contractual maturity</b> | <b>Currency</b> | <b>Interest rate per annum</b> | <b>Amount in original currency</b> | <b>equivalent at 31 December 2006</b> |
| JSC Bank of Georgia (*)       | 25-Oct-06                 | 11-Oct-08                   | GEL             | 11%                            | 101                                | 103                                   |
| JSC Bank of Georgia (*)       | 11-Oct-06                 | 11-Oct-08                   | GEL             | 11%                            | 23                                 | 23                                    |
| JSC Bank of Georgia (*)       | 22-Dec-06                 | 11-Oct-08                   | GEL             | 11%                            | 15                                 | 15                                    |
| JSC Bank of Georgia (*)       | 13-Nov-06                 | 11-Oct-08                   | GEL             | 11%                            | 8                                  | 8                                     |
| JSC Bank of Georgia (*)       | 22-Nov-06                 | 11-Oct-08                   | GEL             | 11%                            | 8                                  | 8                                     |
| JSC Bank of Georgia (*)       | 15-Nov-06                 | 15-Nov-08                   | GEL             | 11%                            | 2                                  | 2                                     |
| JSC Bank of Georgia (*)       | 30-Nov-06                 | 15-Nov-08                   | GEL             | 11%                            | 2                                  | 2                                     |
| JSC Bank of Georgia (*)       | 26-Dec-06                 | 11-Oct-08                   | GEL             | 11%                            | 2                                  | 2                                     |
| <b>Total</b>                  |                           |                             |                 |                                |                                    | <b>163</b>                            |

\* - The loans are secured by the Group's property and equipment with aggregate balance value of GEL 139.

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

**20. Advances Received**

Advances received (non-current) comprise advances received from the shareholder, JSC Bank of Georgia in relation to an agreement entered into on 3 August 2007 with Metro Service + LLC for the rental of the premises from Group for five years. JSC Bank of Georgia prepaid GEL 2,093, and as of 31 December 2007 the outstanding balance of advances received from the shareholder amounted to GEL 1,686.

(Thousands of Georgian Lari)

**21. Equity**

As of 31 December 2007, authorized share capital comprised 69,000,000 common shares, of which 52,432,221 were issued and fully paid (2006: 50,000,000 common shares, of which 45,259,375 were issued and fully paid). Each share has a nominal value of one hundredth (0.01) Georgian Lari. Shares issued and outstanding as of 31 December 2007 are described below. In 2007 aggregate non-cash contribution to the Company's share capital and additional paid-in capital comprised GEL 428 (2006: GEL 4,201).

Movements of outstanding, issued and fully paid shares during 2007 and 2006 were as follows:

|  | <i>Number<br/>of shares</i> | <i>Amount of<br/>share capital</i> | <i>Amount of<br/>additional paid-<br/>in capital</i> |
|--|-----------------------------|------------------------------------|--|
|  | <i>Ordinary</i>             | <i>Ordinary</i>                    | <i>Ordinary</i>                                      |
| <b>24 May 2006</b>                     | –                           | –                                  | –  |
| Issuance of shares on 24 May 2006      | 1,500,000                   | 15                                 | –  |
| Issuance of shares on 6 June 2006      | 32,500,000                  | 325                                | 1,401  |
| Issuance of shares on 24 August 2006   | 815,100                     | 8                                  | 4,882  |
| Issuance of shares on 9 September 2006 | 184,900                     | 2                                  | 3,089  |
| Issuance of shares on 30 November 2006 | 10,259,375                  | 103                                | 6,053  |
| <b>31 December 2006</b>                | <b>45,259,375</b>           | <b>453</b>                         | <b>15,425</b>  |
| Issuance of shares on 20 March 2007    | 1,000,000                   | 10                                 | 1,822  |
| Issuance of shares on 31 May 2007      | 171,847                     | 1                                  | 428  |
| Issuance of shares on 23 October 2007  | 6,000,999                   | 60                                 | 8,940  |
| <b>31 December 2007</b>                | <b>52,432,221</b>           | <b>524</b>                         | <b>26,615</b>  |

Share capital of the Company was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2007 net income attributable to ordinary shareholders was GEL 12,269 (2006: net loss of 864). The weighted average number of ordinary shares outstanding in 2007 was 47,278,126 (2006: 20,634,873). As at 31 December 2007 the diluted number of ordinary shares was 47,417,239 shares (2006: 20,805,653). Thus, basic earnings per share and diluted earnings per share amounted 0.26 (2006: (0.04)) and 0.26 (2006: (0.04)) Georgian Lari, respectively. The 2007 diluted earning per share calculation takes into account the potential dilution of 139,113 shares arising from the call option issued to the JSC Galt & Taggart Asset Management. The 2006 diluted earning per share calculation included the potential dilution to the earnings per share arising from the call option issued to the JSC "Galt & Taggart Securities" in the amount of 170,780 shares.

**Movements in other reserves**

|  | <i>Revaluation<br/>reserve for<br/>property<br/>and equipment</i> | <i>Revaluation<br/>reserve for<br/>investment<br/>property</i> | <i>Unrealised<br/>gains/(losses) on<br/>investment securities<br/>available-for-sale</i> | <i>Total</i> |
|--|---|--|--|--------------|
| <b>At 31 December 2006</b>   | –   | –  | –  | –            |
| Revaluation of land and buildings  | 1,938   | –  | –  | 1,938        |
| Tax effect of revaluation of land and buildings  | (291)   | –  | –  | (291)        |
| Revaluation of investment property (Note 10)   | –   | 1,852  | –  | 1,852        |
| Tax effect of revaluation of investment property   | –   | (278)  | –  | (278)        |
| Net unrealised gains<br>on available-for-sale investments  | –   | –  | 877  | 877          |
| Transfer of net realized gains on investment<br>securities available-for-sale to the consolidated<br>statement of operations | –   | –  | (121)  | (121)        |
| <b>At 31 December 2007</b>   | <b>1,647</b>  | <b>1,574</b>   | <b>756</b>   | <b>3,977</b> |

(Thousands of Georgian Lari)

## 21. Equity (continued)

### Nature and purpose of other reserves

*Revaluation reserve for property and equipment and investment property*

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and investment property and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

*Unrealised gains/(losses) on investment securities available-for-sale*

This reserve records fair value changes on available-for-sale investments.

## 22. Fees and Commission Income

For the year ended 31 December 2007 fees and commission income comprises:

|  | <u>2007</u>         | <u>2006</u>       |
|--|---------------------|-------------------|
| Income from sale of airline tickets      | 980                 | 357               |
| Income from recreation services provided | 439                 | 92                |
| Income from sale of metropolitan coins   | 408                 | 166               |
| Income from tourism services             | 385                 | 73                |
| Income from electronic payment services  | 242                 | –                 |
| <b>Fees and Commission Income</b>        | <b><u>2,454</u></b> | <b><u>688</u></b> |

## 23. Salaries and Other Employee Benefits, and General and Administrative Expenses

Salaries and other employee benefits, and general and administrative expenses comprise:

|                                       | <u>2007</u>         | <u>2006</u>       |
|---------------------------------------|---------------------|-------------------|
| Salaries and bonuses                  | 2,352               | 531               |
| Social security costs                 | 461                 | 111               |
| <b>Salaries and benefits</b>          | <b><u>2,813</u></b> | <b><u>642</u></b> |
| Occupancy and rent                    | 585                 | 281               |
| Legal and other professional services | 430                 | 45                |
| Office supplies                       | 243                 | 21                |
| Travel expenses                       | 101                 | 12                |
| Insurance                             | 70                  | 3                 |
| Marketing and advertising             | 53                  | 37                |
| Communication                         | 52                  | 20                |
| Security                              | 52                  | 7                 |
| Banking services                      | 31                  | 30                |
| Operating taxes                       | 25                  | –                 |
| Repairs and maintenance               | 22                  | 16                |
| Other                                 | 325                 | 10                |
| <b>Other operating expenses</b>       | <b><u>1,989</u></b> | <b><u>482</u></b> |

## 24. Management Consulting Fee Expense

The Company has signed an investment advisory agreement with JSC Galt & Taggart Securities on 26 September 2006. According to the agreement JSC Galt & Taggart Securities acts as an advisory agent for the Company whose responsibilities include providing from time to time services related to the management of the investment funds of the Company, including acquisitions, sale or exchange of capital stock, assets and/or other securities (whether in leveraged acquisition or otherwise), recapitalization of debt or equity restructuring or other similar agreements or arrangements between the Company (or its affiliates) or any third party. In November 2007 JSC Galt & Taggart Securities transferred the right to provide the mentioned services, and receive respective remunerations from the Company, to JSC Galt & Taggart Asset Management based on an agreement entered into between the Company, JSC Galt & Taggart Securities and JSC Galt & Taggart Asset Management dated 1 October 2007.

*(Thousands of Georgian Lari)***24. Management Consulting Fee Expense (continued)**

The fee for the management services provided by the investment advisor is calculated at the annual rate of two percent (2%) of the Company's weighted average market capitalization on the Georgian Stock Exchange less the average net cash of the Company for the period. The management consulting fee is subject to quarterly calculations and payments. The following table reflects quarterly distinction of the management consulting fee for 2007 and 2006 years:

| <b>Management consulting fee</b>       | <b>2007</b>  | <b>2006</b> |
|--|--------------|-------------|
| Quarter I                              | 542          | –           |
| Quarter II                             | 508          | –           |
| Quarter III                            | 450          | –           |
| Quarter IV (Note 16)                   | 504          | 113         |
| <b>Total management consulting fee</b> | <b>2,004</b> | <b>113</b>  |

**25. Business Combination**

No business combinations have occurred during the 2007 year.

**Acquisitions in 2006**

The fair value of identifiable assets, liabilities and contingent liabilities of major business combinations occurred during 2006 (i.e. Intertour LLC, JSC Prime Fitness and Holiday Travel LLC) in aggregate as of the date of acquisition were estimated at:

|                                 | <b>Recognized on<br/>acquisition</b> | <b>Carrying<br/>value</b> |
|---------------------------------|--------------------------------------|---------------------------|
| Cash and cash equivalents       | 145                                  | 145                       |
| Accounts Receivable             | 207                                  | 207                       |
| Property and equipment          | 3,998                                | 3,998                     |
| Intangible assets               | 1                                    | 1                         |
| Tax Assets                      | 36                                   | 36                        |
| Prepayments                     | 70                                   | 70                        |
|                                 | <b>4,457</b>                         | <b>4,457</b>              |
| Accounts payable                | 707                                  | 707                       |
| Other liabilities               | 57                                   | 57                        |
|                                 | <b>764</b>                           | <b>764</b>                |
| <b>Fair value of net assets</b> | <b>3,693</b>                         | <b>3,693</b>              |
| Goodwill arising on acquisition | 896                                  |                           |
| <b>Consideration paid</b>       | <b>4,589</b>                         |                           |

The total net cash outflow on acquisitions was as follows:

|   |                     |
|---|---------------------|
| Cash paid                               | <u>4,589</u>        |
| Less: cash acquired with the subsidiary | <u>(145)</u>        |
| <b>Net cash outflow</b>                 | <b><u>4,444</u></b> |

If the combination had taken place at the beginning of the period, the net income of the Group would have been GEL (811) and the total revenue would have been GEL 1,070.

(Thousands of Georgian Lari)

## 26. Segment Reporting

For management purposes, the group is organised into business units based on their products and services, and has six reportable operating segments as follows:

|                         |  |
|-------------------------|--|
| Real Estate Development | Principally investing in attractive and undervalued properties for further development and leasing purposes.   |
| Travel Services         | Principally engaged in travel services, arrangement of transportation, hotel reservations, and etc.  |
| Business Services       | Principally engaged in servicing individuals transporting via Tbilisi Metropolitan as well as in leasing surplus properties to external customers.   |
| Fitness Services        | Principally providing fitness services to individual and corporate customers.  |
| Corporate Center        | Principally providing support to all business segments of the Group.   |
| Other                   | The segment represents aggregate of insignificant segments that are insignificant on stand-alone basis. These segments provide to customers outdoor & indoor advertisements, transportation and electronic payment services. |

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves different markets.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents income and profit and certain assets and liability information regarding the Group's business segments for the year ended 31 December 2007:

|  | <i>Real estate<br/>development</i> | <i>Travel<br/>services</i> | <i>Business<br/>services</i> | <i>Fitness<br/>services</i> | <i>Corporate<br/>center</i> | <i>Other</i> | <i>Total</i>  |
|--|------------------------------------|----------------------------|------------------------------|-----------------------------|-----------------------------|--------------|---------------|
| <b>Revenue</b>   |                                    |                            |                              |                             |                             |              |               |
| External operating income                                  |                                    |                            |                              |                             |                             |              |               |
| Revaluation of investment property                         | 18,742                             | –                          | –                            | –                           | 310                         | –            | 19,052        |
| Fees and commission income                                 | –                                  | 1,365                      | 408                          | 439                         | –                           | 242          | 2,454         |
| Revenue from lease of properties                           | 628                                | –                          | 367                          | 220                         | –                           | –            | 1,215         |
| Net gains from sale of investments<br>in associates        | –                                  | –                          | –                            | –                           | 751                         | –            | 751           |
| Net gains from investment securities<br>available-for-sale | –                                  | –                          | –                            | –                           | 121                         | –            | 121           |
| Share of associate profit (loss)                           | –                                  | –                          | –                            | –                           | 137                         | (3)          | 134           |
| Other revenues   | 396                                | –                          | 57                           | 12                          | 119                         | 879          | 1,463         |
| Inter-segment revenues                                     | –                                  | (12)                       | (30)                         | –                           | 42                          | –            | –             |
| <b>Total operating income</b>                              | <b>19,766</b>                      | <b>1,353</b>               | <b>802</b>                   | <b>671</b>                  | <b>1,480</b>                | <b>1,118</b> | <b>25,190</b> |
| <b>Result</b>  |                                    |                            |                              |                             |                             |              |               |
| <b>Profit (loss) before tax</b>                            | <b>17,960</b>                      | <b>(44)</b>                | <b>(1,209)</b>               | <b>(61)</b>                 | <b>(1,726)</b>              | <b>(202)</b> | <b>14,718</b> |
| Income tax expense (benefit)                               | 2,699                              | 46                         | –                            | (7)                         | (259)                       | (30)         | 2,449         |
| <b>Net profit (loss) for the year</b>                      | <b>15,261</b>                      | <b>(90)</b>                | <b>(1,209)</b>               | <b>(54)</b>                 | <b>(1,467)</b>              | <b>(172)</b> | <b>12,269</b> |
| <b>Assets and liabilities</b>                              |                                    |                            |                              |                             |                             |              |               |
| Segment assets   | 44,331                             | 988                        | 3,187                        | 7,711                       | 12,286                      | 1,252        | 69,755        |
| Investment in associate                                    | –                                  | –                          | –                            | –                           | 4,144                       | 204          | 4,348         |
| <b>Total assets</b>  | <b>44,331</b>                      | <b>988</b>                 | <b>3,187</b>                 | <b>7,711</b>                | <b>16,430</b>               | <b>1,456</b> | <b>74,103</b> |
| Segment liabilities  | 21,157                             | 1,203                      | 4,335                        | 2,070                       | 1,478                       | 1,322        | 31,565        |
| <b>Total liabilities</b>                                   | <b>21,157</b>                      | <b>1,203</b>               | <b>4,335</b>                 | <b>2,070</b>                | <b>1,478</b>                | <b>1,322</b> | <b>31,565</b> |
| <b>Other segment information</b>                           |                                    |                            |                              |                             |                             |              |               |
| Capital expenditure:                                       |                                    |                            |                              |                             |                             |              |               |
| Property and equipment                                     | 242                                | 41                         | 1,242                        | 1,772                       | 117                         | 662          | 4,076         |
| Intangible assets  | –                                  | –                          | 131                          | –                           | –                           | –            | 131           |
| Depreciation   | 37                                 | 12                         | 215                          | 120                         | 10                          | 74           | 468           |
| Amortization   | –                                  | –                          | 9                            | –                           | 1                           | 1            | 11            |

(Thousands of Georgian Lari)

**26. Segment Reporting (continued)**

The following table presents operating income and profit and certain asset and liability information regarding the Group's business segments for the period ended 31 December 2006:

|   | <i>Real estate<br/>development</i> | <i>Travel<br/>services</i> | <i>Business<br/>services</i> | <i>Fitness<br/>services</i> | <i>Corporate<br/>center</i> | <i>Other</i> | <i>Total</i>  |
|---|------------------------------------|----------------------------|------------------------------|-----------------------------|-----------------------------|--------------|---------------|
| <b>Revenue</b>                          |                                    |                            |                              |                             |                             |              |               |
| External operating income               |                                    |                            |                              |                             |                             |              |               |
| Fees and commission income              | –                                  | 445                        | 186                          | 57                          | –                           | –            | 688           |
| Other revenues                          | 20                                 | –                          | –                            | 120                         | 133                         | 3            | 276           |
| <b>Total operating income</b>           | <b>20</b>                          | <b>445</b>                 | <b>186</b>                   | <b>177</b>                  | <b>133</b>                  | <b>3</b>     | <b>964</b>    |
| Impairment expense                      |                                    | 48                         |                              |                             |                             |              | 48            |
| <b>Result</b>                           |                                    |                            |                              |                             |                             |              |               |
| Segment results                         | (154)                              | 4                          | (394)                        | (57)                        | (347)                       | (27)         | (975)         |
| <b>Profit before tax</b>                | <b>(154)</b>                       | <b>4</b>                   | <b>(394)</b>                 | <b>(57)</b>                 | <b>(347)</b>                | <b>(27)</b>  | <b>(975)</b>  |
| Income tax benefit                      | (31)                               | (40)                       | –                            | (11)                        | (23)                        | (6)          | (111)         |
| <b>Net profit (loss) for the period</b> | <b>(123)</b>                       | <b>44</b>                  | <b>(394)</b>                 | <b>(46)</b>                 | <b>(324)</b>                | <b>(21)</b>  | <b>(864)</b>  |
| <b>Assets and liabilities</b>           |                                    |                            |                              |                             |                             |              |               |
| Segment assets                          | 9,757                              | 675                        | 2,325                        | 4,088                       | 5,746                       | 365          | 22,956        |
| Investment in associate                 | –                                  | –                          | –                            | –                           | 289                         | –            | 289           |
| <b>Total assets</b>                     | <b>9,757</b>                       | <b>675</b>                 | <b>2,325</b>                 | <b>4,088</b>                | <b>6,035</b>                | <b>365</b>   | <b>23,245</b> |
| Segment liabilities                     | 4,041                              | 885                        | 2,718                        | 91                          | 315                         | 164          | 8,214         |
| <b>Total liabilities</b>                | <b>4,041</b>                       | <b>885</b>                 | <b>2,718</b>                 | <b>91</b>                   | <b>315</b>                  | <b>164</b>   | <b>8,214</b>  |
| <b>Other segment information</b>        |                                    |                            |                              |                             |                             |              |               |
| Capital expenditure:                    |                                    |                            |                              |                             |                             |              |               |
| Property and equipment                  | 8,041                              | 57                         | 889                          | 4,058                       | 6                           | 143          | 13,194        |
| Intangible assets                       | –                                  | –                          | 37                           | 2                           | 3                           | 10           | 52            |
| Depreciation                            | 28                                 | 3                          | 7                            | 54                          | –                           | 4            | 96            |
| Amortization                            | –                                  | –                          | 1                            | 1                           | –                           | –            | 2             |

The Group predominantly operates under one geographical segment - Georgia; therefore no geographic segment disclosure is presented.

**27. Risk Management**

The Company's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts and trade payables. The main purpose of these financial liabilities is to raise funds for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, market risk and capital risk.

**Credit risk**

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The table below shows the maximum exposure to credit risk for the components of the balance sheet as at 31 December 2007 and 31 December 2006.

|  | <i>Notes</i> | <i>Gross maximum<br/>exposure<br/>2007</i> | <i>Gross maximum<br/>exposure<br/>2006</i> |
|--|--------------|--|--|
| Cash and cash equivalents (excluding cash on hand) | 5            | 5,757                                      | 4,759                                      |
| Accounts receivables                               | 6            | 580  | 441  |
| Investment securities: - available-for-sale        | 11           | 5,617                                      | 350  |
|  |              | <b>11,954</b>                              | <b>5,550</b>                               |
| Financial commitments and contingencies            | 28           | 4,896                                      | 6,375                                      |
| <b>Total credit risk exposure</b>                  |              | <b>16,850</b>                              | <b>11,925</b>                              |

(Thousands of Georgian Lari)

## 27. Risk Management (continued)

### Credit risk (continued)

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The geographical concentration of Group's monetary assets and liabilities as at 31 December 2007 and 31 December 2006 was within Georgia.

### Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through an assessment of short, medium and long-term cash flow forecasts and monitoring forecast and actual cash flows and matching cash resources with the maturity profiles of financial statements.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs up to GEL 2,000.

#### *Analysis of financial liabilities by remaining contractual maturities*

The tables below summarises the maturity profiles of the Group's financial liabilities at 31 December 2007 and 31 December 2006 based on contractual undiscounted repayment obligations:

| <b>Financial liabilities</b>                    | <b>Less than 3 months</b> | <b>3 to 12 months</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b>  |
|---|---------------------------|-----------------------|---------------------|---------------------|---------------|
| As at 31 December 2007                          |                           |                       |                     |                     |               |
| Accounts payable                                | 4,197                     | –                     | –                   | –                   | 4,197         |
| Interest-bearing loans and borrowings           | 358                       | 4,681                 | 11,843              | –                   | 16,882        |
| <b>Total undiscounted financial liabilities</b> | <b>4,555</b>              | <b>4,681</b>          | <b>11,843</b>       | <b>–</b>            | <b>21,079</b> |
| <b>Financial liabilities</b>                    | <b>Less than 3 months</b> | <b>3 to 12 months</b> | <b>1 to 5 years</b> | <b>Over 5 years</b> | <b>Total</b>  |
| As at 31 December 2006                          |                           |                       |                     |                     |               |
| Accounts payable                                | 1,689                     | –                     | –                   | –                   | 1,689         |
| Interest-bearing loans and borrowings           | 321                       | 6,365                 | –                   | –                   | 6,686         |
| <b>Total undiscounted financial liabilities</b> | <b>2,010</b>              | <b>6,365</b>          | <b>–</b>            | <b>–</b>            | <b>8,375</b>  |

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations in foreign currency, the Group has no significant concentration of market risk.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. However, changes in interest rates do not impact any component of the Group's financial assets or liabilities. All interest-bearing loans and borrowings and cash and cash equivalents have fixed interest rates and therefore management do not believe the Group is exposed to the interest rate risk from these financial assets and liabilities. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

(Thousands of Georgian Lari)

## 27. Risk Management (continued)

### Market risk (continued)

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group enters into contracts in US Dollars and Euros. The Group does not use currency derivatives to hedge future transactions and cash flows.

The table below indicate the currencies to which the Group had significant exposure at 31 December 2007 on monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the statement of operations. A negative amount in the table reflects a potential net reduction in statement of operations or equity, while a positive amount reflects a net potential increase. During 2007 and 2006 sensitivity analysis did not reveal significant potential effect on Group's equity.

| Currency | Change in<br>currency<br>rate in %<br>2007 | Effect on<br>profit<br>before tax<br>2007 | Effect on<br>equity<br>2007 | Change in<br>currency<br>rate in %<br>2006 | Effect on<br>profit<br>before tax<br>2006 | Effect on<br>equity<br>2006 |
|----------|--|---|-----------------------------|--|---|-----------------------------|
| USD      | 3.5%                                       | (376)                                     | –                           | 3.6%                                       | (1)                                       | –                           |
| EUR      | 4.6%                                       | –   | –                           | 4.2%                                       | –   | –                           |

### Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity mix. The capital structure of the Group consists of interest-bearing loans and borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

There are no externally imposed capital requirements to which the Group is subject to.

## 28. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

|                              | 2007            |            |
|------------------------------|-----------------|------------|
|                              | Carrying amount | Fair value |
| <i>Financial assets</i>      |                 |            |
| Accounts receivables         | 580             | 580        |
| <i>Financial liabilities</i> |                 |            |
| Loans and borrowings         | 12,917          | 12,917     |

*(Thousands of Georgian Lari)***28. Fair Values of Financial Instruments (continued)**

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

|                              | <i>2006</i>            |                   |
|------------------------------|------------------------|-------------------|
|                              | <i>Carrying amount</i> | <i>Fair value</i> |
| <i>Financial assets</i>      |                        |                   |
| Accounts receivables         | 441                    | 441               |
| <i>Financial liabilities</i> |                        |                   |
| Loans and borrowings         | 6,190                  | 6,190             |

**29. Commitments and Contingencies****Legal**

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.

**Financial commitments and contingencies***Operating lease commitments – Group as lessee*

Operating lease payments are recognized as an expense in profit or loss on a straight line basis over the lease term.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

|   | <i>2007</i>  | <i>2006</i>  |
|---|--------------|--------------|
| Within one year                             | 646          | 783          |
| After one year but not more than five years | 2,217        | 2,997        |
| More than five years                        | 2,033        | 2,595        |
|   | <b>4,896</b> | <b>6,375</b> |

**Financial commitments and contingencies (continued)***Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's commercial offices and warehouse buildings. These non-cancellable leases have remaining terms of between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancelable operating leases as at 31 December are as follows:

|   | <i>2007</i>  | <i>2006</i> |
|---|--------------|-------------|
| Within one year                             | 545          | –           |
| After one year but not more than five years | 789          | –           |
|   | <b>1,334</b> | <b>–</b>    |

(Thousands of Georgian Lari)

### 30. Related Party Transactions

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year/period are as follows:

|                                      | 2007                          |            |    | 2006                          |            |   |
|--------------------------------------|-------------------------------|------------|----|-------------------------------|------------|---|
|                                      | Entities under common control |            |    | Entities under common control |            |   |
|                                      | Parent                        | Associates |    | Parent                        | Associates |   |
| Trade and other receivables          | 42                            | 1          | 74 | 9                             | –          | – |
| Prepayments and other current assets | 13                            | 7          | –  | –                             | –          | – |
| Cash and cash equivalents            | 5,707                         | –          | –  | 4,735                         | –          | – |
| Short-term loans and borrowings      | 12,917                        | –          | –  | 6,190                         | –          | – |
| Trade and other accounts payable     | 1,701                         | 705        | –  | 143                           | –          | – |
| Services rendered                    | 559                           | –          | –  | 35                            | –          | – |
| Services received                    | 151                           | 2,460      | –  | 401                           | 2          | – |
| Finance income                       | 112                           | –          | 2  | 56                            | –          | – |
| Finance costs                        | 2,212                         | –          | –  | 145                           | –          | – |

*Terms and conditions of transactions with related parties*

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2007, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2006: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel comprised the following:

|  | 2007       | 2006       |
|--|------------|------------|
| Salaries and other benefits              | 578        | 117        |
| Social security costs                    | 116        | 23         |
| <b>Total key management compensation</b> | <b>694</b> | <b>140</b> |

The key management is comprised of 8 personnel at 31 December 2007 (2006: 6).

### 31. Events Subsequent to Balance Sheet Date

On 31 January 2008 JSC SB Real Estate completed the issuance of its ordinary shares. JSC Karit Investment Group Georgia acquired 26,550,477 newly issued shares or 38.02% for a consideration of USD 4,809 thousand. Following the issuance of shares the Company’s equity interest in JSC SB Real Estate decreased from 100% as of 31 December 2007 to 61.98%.

On 12 March 2008 JSC SB Outdoor & Indoor purchased 32.45% stake in JSC Stili +, a joint stock company incorporated under the laws of Georgia. The consideration paid for the equity stake comprised GEL 1,000. JSC Stili + is the exclusive operator of municipal bus advertisements in Tbilisi.

On 21 March 2008 the associate, JSC Populi increased its’ equity capital by GEL 5,000 through rights issue among existing shareholders. The Company participated in the fund raising by acquiring shares in the amount of GEL 1,534. As a result of the transaction the Company increased its equity interest in JSC Populi from 19.96% as of 31 December 2007 to 21.19%.

*(Thousands of Georgian Lari)*

### **31. Events Subsequent to Balance Sheet Date (continued)**

On 15 April 2008 JSC Galt & Taggart Capital purchased 30% stake in JSC Caucasus Automotive Retail, a joint stock company incorporated under the laws of Georgia and engaged in import and distribution of motor vehicles, for a consideration of USD 814.

On 24 April 2008 JSC Galt & Taggart Capital purchased 500,000 shares or 10% equity interest in JSC Nikora, a joint stock company incorporated under the laws of Georgia and engaged in food processing and retail. Total consideration for the acquisition amounted to GEL 6.8 million.

During the four months of 2008, JSC SB Real Estate purchased properties in Abanotubani, Saburtalo, Mtatsminda and Gudauri in the amount of USD 1,600 thousand, USD 1,045 thousand, GEL 935 and GEL 1,750, respectively.

On 5 May 2008 the Supervisory Board of JSC Galt & Taggart Capital approved the issuance of 16 million new ordinary shares of the Company. As of 10 May 2008 only 6 million shares were purchased by the existing and new shareholders. Price per share is GEL 1.25.

On 5 May 2008 the Supervisory Board of the Company approved the sale of its equity interests in Metro Service + LLC, JSC SB Trade and SB Transport LLC to JSC Galt & Taggart Securities for GEL 1,395, GEL 15 and GEL 90, respectively.