

**JSC Galt & Taggart Capital Group**  
**Consolidated Financial Statements**

*Period from May 24, 2006 to December 31, 2006*  
*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, which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated statement of operations, consolidated statement of changes in equity and consolidated statement of cash flows for the period from May 24, 2006 to December 31, 2006, 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 as at December 31, 2006, and its financial performance and its cash flows for the period from May 24, 2006 to December 31, 2006 in accordance with International Financial Reporting Standards.

June 20, 2007



**CONSOLIDATED BALANCE SHEET****As of December 31, 2006***(Thousands of Georgian Lari)*

	<u>Notes</u>	<u>2006</u>
<b>Assets</b>		
Cash and cash equivalents	5	4,789
Investment securities: available for sale	6	350
Accounts Receivable	7	441
Investment Property	8	1,224
Investments in Associates	9	496
Property and equipment	10	13,098
Intangible assets	11	946
Income tax assets	12	162
Prepayments	13	1,235
Other assets	14	504
<b>Total assets</b>		<b><u>23,245</u></b>
<b>Liabilities</b>		
Accounts Payable	15	1,689
Interest-Bearing Loans and Borrowings	16	6,190
Other liabilities	14	335
<b>Total liabilities</b>		<b><u>8,214</u></b>
<b>Equity</b>		
Share Capital	17	453
Share Premium		15,425
Accumulated losses		(847)
<b>Total equity attributable to shareholders of the Company</b>		<b><u>15,031</u></b>
Minority Interest		-
<b>Total equity</b>		<b><u>15,031</u></b>
<b>Total equity and liabilities</b>		<b><u>23,245</u></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

June 20, 2007

*The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF OPERATIONS****Period from May 24, 2006 to December 31, 2006***(Thousands of Georgian Lari)*

	<b>Notes</b>	<b>2006</b>
<b>Revenues</b>		
Fees and commission income	19	688
Other revenues		276
		<b>964</b>
<b>Operating expenses</b>		
Salaries and other employee benefits	20	642
Administrative expenses	20	482
Management consulting fee		113
Performance fee		256
Depreciation and amortization expenses	10,11	98
Impairment expense	7	48
Other expenses		155
		<b>1,794</b>
<b>Loss before interest and taxation</b>		<b>(830)</b>
Interest expenses		145
<b>Loss before taxation</b>		<b>(975)</b>
Income tax benefit	12	111
<b>Net loss for the period</b>		<b>(864)</b>
Attributable to:		
- shareholders of the Company		(793)
- minority interest		(71)
		<b>(864)</b>
<b>Loss per share:</b>		
- basic		(0.04)
- diluted		(0.04)

*The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****Period from May 24, 2006 to December 31, 2006***(Thousands of Georgian Lari)*

	<i>Attributable to shareholders of the Company</i>					<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Treasury shares</i>	<i>Accumulated loss</i>	<i>Other reserves</i>			
<b>May 24, 2006</b>	–	–	–	–	–	–	–	–
Gain recognized directly in equity (Note 17)	–	–	–	17	–	17	–	17
<b>Total income recognised directly in equity</b>				17		17		17
Net loss for the period	–	–	–	(864)	–	(864)	–	(864)
<b>Total expense for the period</b>				(847)		(847)		(847)
Issue of share capital	453	15,425	–	–	–	15,878	–	15,878
<b>December 31, 2006</b>	<b>453</b>	<b>15,425</b>	<b>–</b>	<b>(847)</b>	<b>–</b>	<b>15,031</b>	<b>–</b>	<b>15,031</b>

*The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS****Period from May 24, 2006 to December 31, 2006***(Thousands of Georgian Lari)*

	<u>Notes</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Fees and Commission Income		688
Other Revenues		276
Salaries and other employee benefits		(642)
Administrative expenses		(482)
Interest Expense		(76)
Other expenses		(524)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<u>(760)</u>
<i>Net (increase)/decrease in operating assets</i>		
Accounts Receivable		(282)
Prepayments		(1,165)
Income tax assets		(15)
Other assets		(375)
<i>Net increase / (decrease) in operating liabilities</i>		
Accounts Payable		982
Other liabilities		278
<b>Net cash flows used in operating activities before income tax</b>		<u>(1,337)</u>
Corporate income tax paid		—
<b>Net cash used in operating activities</b>		<u>(1,337)</u>
<b>Cash flows from investing activities</b>		
Purchase of investment securities		(16)
Purchase of Associates		(496)
Purchase of Investment property		(1,224)
Subsidiaries acquired net of cash		(4,444)
Sale of equity shares in subsidiaries		17
Purchases of property and equipment		(5,508)
<b>Net cash used in investing activities</b>		<u>(11,671)</u>
<b>Cash flows from financing activities</b>		
Interest-Bearing Loans and borrowings		6,120
Issuance of new shares		11,677
<b>Net cash from financing activities</b>		<u>17,797</u>
Effect of exchange rates changes on cash and cash equivalents		—
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>4,789</u>
<b>Cash and cash equivalents, beginning</b>		—
<b>Cash and cash equivalents, ending</b>	5	<u>4,789</u>

*The accompanying notes on pages 5 to 26 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 “Group”). The Group is incorporated in Georgia, Cyprus and Ukraine, its activity includes providing banking, leasing, insurance and brokerage services to corporate and individual customers.

The Company’s principal activities include investing in the Georgian companies which are engaged in provision of consumer services, real estate development and operations, and provision of business services to companies focused on the Georgian consumer market (with the exception of financial services). Principal Subsidiaries are disclosed in Note 2.

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

As of December 31, 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>December 31, 2006, %</b>
Galt & Taggart Securities	62.90%
Bank of Georgia	14.30%
Concentra Ltd.	5.52%
EastInvestor Ltd.	3.76%
Firebird Republics Fund Ltd.	2.76%
Firebird Aurora Fund Ltd.	2.76%
Other	8.00%
<b>Total</b>	<b>100%</b>

As of December 31, 2006, members of the Supervisory Board and Board of Directors controlled 24,167 shares (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 Company and its subsidiaries are required to maintain their records and prepare its financial statements for regulatory purposes in Georgian Lari in accordance with IFRS. These consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of financial assets and liabilities held for trading, as well as available-for-sale securities and revaluation of property.

These consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), except per share amounts and unless otherwise indicated. Transactions in currencies other than the Lari are treated as transactions in foreign currencies.

### Changes in accounting policies

#### IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 “Financial Instruments: Disclosures”;  
 Amendment to IAS 1 “Presentation of financial Statements” – “Capital Disclosures”;  
 IFRIC 8 “Scope of IFRS 2”;  
 IFRIC 9 “Reassessment of Embedded Derivatives”;  
 IFRIC 10 “Interim Financial Reporting and Impairment”  
 IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”  
 IFRIC 12 “Service Concession Arrangements”.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company’s consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Company financial instruments, the nature and extent of risks arising from those financial instruments, and the Company’s objectives, policies and processes for managing capital.

(Thousands of Georgian Lari)

## 2. Basis of preparation (continued)

### Subsidiaries

The consolidated financial statements include the following subsidiaries:

December 31, 2006

Subsidiary	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
JSC SB Outdoor and Indoor	100.0%	Georgia	09/06/2006	Advertising company	–
Intertour LLC	83.6%	Georgia	29/03/1996	Travel agency	6/06/2006
MetroService+ LLC	80.0%	Georgia	10/05/2006	Business services	–
Direct Debit Georgia LLC	100.0%	Georgia	22/02/2006	Payment services	–
JSC Prime Fitness	100.0%	Georgia	03/07/2006	Fitness centre	17/08/2006
JSC SB Real Estate	100.0%	Georgia	27/09/2006	Real estate	–
Holiday Travel LLC	83.6%	Georgia	11/02/2005	Travel agency	4/09/2006

In 2006 the Company founded MetroService+ LLC, Direct Debit Georgia LLC and JSC SB Real Estate and JSC SB Energy (reorganized into JSC SB Outdoor and Indoor on July 27, 2006). The travel agency Intertour LLC was acquired by the parent company – JSC “Galt & Taggart Securities” and further transferred to the Company. Intertour LLC acquired 100% of Holiday Travel LLC on 4 September, 2006. Refer to Business Combination Note 21.

## 3. Summary of Significant Accounting Policies

### Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intra-group 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. Where necessary accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

#### *Acquisition of subsidiaries*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. 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 Company’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 Company’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated statement of operations.

Minority interest is the interest in subsidiaries not held by the Company. 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 Company.

#### *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 are charged or credited to accumulated deficit.

*(Thousands of Georgian Lari)*

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

#### **Investments in associates**

Associates are entities in which the Company 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 Company's share of net assets of the associate. The Company'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 Company's share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognise further losses, unless the Company is obliged to make further payments to, or on behalf of, the associate.

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

#### **Financial assets**

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 Company determines the classification of its financial assets upon initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company 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.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of operations 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 three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with 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.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

#### **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 within banks and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

*(Thousands of Georgian Lari)*

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

#### Derivative financial instruments

In the normal course of business, the Company 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.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

#### Interest-bearing loans and borrowings

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

##### *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 Company 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.

*(Thousands of Georgian Lari)*

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

#### Allowances for impairment of financial assets (continued)

##### *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 Company 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 Company 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 Company 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 Company'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 Company could be required to repay.

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 Company's continuing involvement is the amount of the transferred asset that the Company 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 Company'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 of Georgian Tax Code.

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.

*(Thousands of Georgian Lari)*

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

#### Taxation (continued)

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.

Georgia also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of other operating expenses.

#### Property and equipment

Property and equipment is 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. 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, 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.

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 accumulated loss is made for the difference between depreciation based on the revalued 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 accumulated loss.

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.

*(Thousands of Georgian Lari)*

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

#### Investment property

Investment properties are measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Investment property which is land held to earn rentals or for capital appreciation. Company applies cost model to account for investment property .

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of operations in the year of retirement or disposal.

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

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company'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 Company'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 Company 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 Company at which the goodwill is monitored for internal management purposes.

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.

#### Other intangible assets

The Company'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.

*(Thousands of Georgian Lari)*

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

#### Other intangible assets (continued)

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Company can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

#### Provisions

Provisions are recognised when the Company 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 Company does not have any pension arrangements separate from the State pension system of Georgia, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

#### Share capital

##### *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.

#### Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

#### Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue from rendering of services is recognised in the period the services are provided based on the total contract value and the percentage completed. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

#### Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Each entity in the Company determines its own functional currency and items included in the financial consolidated 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.

*(Thousands of Georgian Lari)*

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

#### Foreign currency translation (continued)

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 December 31, 2006 were 1.7135 Lari to 1 USD and 2.2562 Lari to 1 EUR, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Company 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 Company, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the consolidated statement of operations.

### 4. Significant Accounting Estimates

#### Estimation uncertainty

The preparation of consolidated financial statements requires the Company 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 Company is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Company 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 Company regularly evaluates current information available to determine whether such accruals are required. As of December 31, 2006, the Company did not record any contingent liabilities.

#### *Acquisition of subsidiaries*

In acquiring subsidiaries, management is required to make estimates in the identification of the assets acquired and the liabilities assumed, the valuation of these assets and liabilities in the purchase price allocation, and the assessment of whether or not these assets have an indefinite life or are amortizing. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed has a significant impact on the level of goodwill and future depreciation and amortization of assets acquired.

#### *Impairment of goodwill*

The Company 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 Company 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 at 31 December 2006 was GEL 896. More details are provided in Note 11.

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

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Company 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.

(Thousands of Georgian Lari)

#### 4. Significant Accounting Estimates (continued)

##### Estimation uncertainty (continued)

###### *Impairment of investments*

The Company 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 Company 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>2006</u>
Cash on hand	30
Cash at bank denominated in national currency	4,742
Cash at bank denominated in foreign currency	17
<b>Cash and cash equivalents</b>	<b><u>4,789</u></b>

Cash at banks earns 0% interest. Short-term deposits are made for varying periods between 1 day and 3 months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

#### 6. Investment Securities

Available-for-sale securities comprise:

	<u>2006</u>
Shares quoted	16
Shares unquoted	334
<b>Available-for-sale securities</b>	<b><u>350</u></b>

The investment securities comprise of shares of two Georgian retail companies.

#### 7. Accounts Receivable

	<u>2006</u>
Accounts Receivable	460
Receivables from other related parties	29
<b>Total Accounts Receivable, Gross</b>	<b><u>489</u></b>
Less: Allowance	48
<b>Total Accounts Receivable, Net</b>	<b><u>441</u></b>

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

	<u>2006</u>
<b>24 May 2006</b>	-
Charge for the period	48
Amounts written off	-
Unused amounts reversed	-
<b>31 December 2006</b>	<b><u>48</u></b>

*(Thousands of Georgian Lari)***7. Accounts Receivable (continued)**

As at 31 December 2006 the analysis of Accounts Receivable that were past due but not impaired is as follows:

	<i>Past due but not impaired</i>						
	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>&lt;30 days</i>	<i>30-60 days</i>	<i>60-90 days</i>	<i>90-120 days</i>	<i>&gt;120 days</i>
31 December 2006	441	393	4	4	7	3	30

**8. Investment Property**

	<u>2006</u>
Opening balance at 24 May 2006	–
Additions (subsequent expenditure)	1,224
Disposals	–
Ending balance at 31 December 2006	<u>1,224</u>

Investment property is stated at cost. The fair value of the investment property has been determined based on valuations performed by "Georgian Valuation Company" and equals GEL 12,886. The valuation has been carried out in 15 February, 2007.

**9. Investment in Associates**

The Company has 28.00% interest in JSC Matsne+ which is involved in the installation of bus stations and advertising business on bus station billboards. JSC Matsne+ is a private company that is not listed on a public exchange.

<b>Share of the associate's balance sheet:</b>	<u>2006</u>
Current Assets	56
Noncurrent Assets	18
Current Liabilities	55
Noncurrent Liabilities	83
<b>Net assets</b>	(64)
<b>Share of the associate's revenue and profit:</b>	
Revenue	9
Loss	(12)
<b>Carrying amount of the investment</b>	<u>207</u>

The Company has 27.03% interest in JSC iCall, outsourced contact service operator. JSC iCall is a private company that is not listed on a public exchange.

<b>Share of the associate's balance sheet:</b>	<u>2006</u>
Current Assets	52
Noncurrent Assets	40
Current Liabilities	9
Noncurrent Liabilities	–
<b>Net assets</b>	83
<b>Share of the associate's revenue and profit:</b>	
Revenue	46
Profits	(30)
<b>Carrying amount of the investment</b>	<u>289</u>

The excess of the carrying value of investments in associates above the Company's shares of the net assets of associate represents the goodwill on acquisition.

*(Thousands of Georgian Lari)***10. Property and Equipment**

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

	<i>Land &amp; Buildings</i>	<i>Furniture &amp; fixtures</i>	<i>Computers &amp; 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 (Note 21)	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>

**11. Intangible Assets**

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 (Note 21)	896	–	896
Additions	–	52	52
Disposals	–	–	–
<b>31 December 2006</b>	<b>896</b>	<b>52</b>	<b>948</b>
<b>Accumulated amortization and impairment</b>			
<b>December 31, 2005</b>	–	–	–
Charge for amortization	–	2	2
Disposals	–	–	–
<b>31 December 2006</b>	<b>–</b>	<b>2</b>	<b>2</b>
<b>Net book value:</b>			
<b>24 May 2006</b>	–	–	–
<b>31 December 2006</b>	<b>896</b>	<b>50</b>	<b>946</b>

As of December 31, 2006 Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- Intertour LLC
- JSC Prime Fitness

(Thousands of Georgian Lari)

## 11. Intangible Assets (continued)

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 flow 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.

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

	<i>WACC applied for impairment</i>	<i>Carrying amount of goodwill December 31, 2006</i>
Intertour LLC	14%	652
JSC Prime Fitness	16%	244
<b>Total</b>		<b>896</b>

## 12. Taxation

The corporate income tax benefit comprises:

	<u>2006</u>
Current tax charge	2
Deferred tax benefit – origination and reversal of temporary differences	(113)
<b>Income tax benefit</b>	<b>(111)</b>

Georgian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2006. The tax rate for companies other than banks was also 20% for 2006. The tax rate for interest income on state securities was 10%.

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

<b>Loss before taxation</b>	<u>2006</u>
Statutory tax rate	(975)
<b>Theoretical income tax benefit at the statutory rate</b>	<u>20%</u>
State securities at lower tax rates	(195)
Permanent differences	–
Change in unrecognized deferred tax assets	(42)
Non-taxable revenues :	173
- sale of assets	(3)
- other	(44)
<b>Income tax benefit</b>	<b>(111)</b>

Georgia currently has a number of laws related to various taxes imposed by state authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, 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 Company 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 interpretive issues.

*(Thousands of Georgian Lari)***12. Taxation (continued)**

Deferred tax assets and liabilities as of December 31 and their movements for 2006 comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Effect of business combination (Note 21)</i>	<i>2006</i>
	<i>2005</i>	<i>In the statement of operations</i>	<i>Directly in equity</i>		
<b>Tax effect of deductible temporary differences:</b>					
Tax losses carried forward	–	295	–		295
Accounts receivable	–	13	–	36	49
Accounts payable	–	72	–		72
<b>Gross deferred tax assets</b>	–	<b>380</b>	–	<b>36</b>	<b>416</b>
Unrecognized deferred tax assets	–	(173)	–		(173)
<b>Deferred tax asset</b>	–	<b>207</b>	–	<b>36</b>	<b>243</b>
<b>Tax effect of taxable temporary differences:</b>					
Property and equipment	–	(89)	–	–	(89)
Intangible assets	–	(3)	–	–	(3)
Prepayments	–	(2)	–	–	(2)
<b>Deferred tax liability</b>	–	<b>(94)</b>	–	–	<b>(94)</b>
<b>Deferred tax asset</b>	–	<b>113</b>	–	<b>36</b>	<b>149</b>

As of December 31 tax assets consist of the following:

	<b>2006</b>
Deferred tax assets	149
Current tax assets	13
<b>Tax assets</b>	<b>162</b>

**13. Prepayments**

As of December 31 prepayments comprise of 575 GEL prepayment to Green Project LLC for supply and installation of software solutions, 138 GEL prepayment to Tbilisi Metropolitan LLC for rent of premises and 221 GEL prepaid expenses for the repair services, respectively. Company has prepaid 301 GEL for repair services.

**14. Other Assets and Liabilities**

As of December 31 other assets comprise:

	<b>2006</b>
VAT receivable	503
Other	1
Less – Allowance for impairment of other assets	–
<b>Other assets</b>	<b>504</b>

Other liabilities comprise:

	<b>2006</b>
Derivative financial instruments	201
Operating taxes payable	89
Property tax payable	25
Creditors	10
Other	10
<b>Other liabilities</b>	<b>335</b>

(Thousands of Georgian Lari)

#### 14. Other Assets and Liabilities (continued)

The derivative financial instruments represent the call option for share purchase issued by the Company to the parent – JSC “Galt & Taggart Securities”.

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within the specified period.

The underlying asset of the option issued by the Company on November 15, 2006 is the 170,780 shares of the Company for a nominal value – 0.01 GEL. The maturity of the call option was 28 February, 2007. The option was issued in exchange for the services received from JSC “Galt & Taggart Securities”. The value of the option was measured using the fair value of the service exchanged for. The fair value of the services rendered was reliably measured and was estimated to be 256 GEL.

The share price of the Company at December 31, 2006 was 1.187 GEL. The unrealized gain from revaluation of financial instruments issued constituted 55 GEL. The call option was exercised on 28 March 2007. The stock price of the Company at the date of exercise was 2.505 GEL.

#### 15. Accounts Payable

	<u>2006</u>
Accounts Payable	1,667
Advances received	22
<b>Total Accounts Payable</b>	<b><u>1,689</u></b>

Accounts payable are non-interest bearing and are normally settled on 30-days terms. Accounts Payable include 767 GEL payable to Tbilisi Metropolitan for ASM (Automatization System of Metropolitan) and 754 GEL payable to airline companies for the services received.

#### 16. Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings comprise of:

<i>Credit institution</i>	<i>Date of loan grant</i>	<i>Contractual maturity</i>	<i>Currency</i>	<i>Interest rate</i>	<i>Amount in original currency</i>	<i>GEL equivalent at December 31, 2006</i>
JSC Bank of Georgia	1-aug-2006	1-aug-2007	GEL	14%	150	89
JSC Bank of Georgia	24-nov-2006	22-nov-2007	GEL	14%	3,945	4,002
JSC Bank of Georgia	14-aug-2006	9-feb-2007	GEL	12%	126	127
JSC Bank of Georgia	7-sep-2006	7-mar-2007	GEL	12%	628	633
JSC Bank of Georgia	8-nov-2006	8-nov-2007	GEL	12%	1,114	1,118
JSC Bank of Georgia	21-dec-2006	21-jun-2007	USD	14%	33	58
JSC Bank of Georgia	11-oct-2006	11-oct-2008	GEL	11%	23	23
JSC Bank of Georgia	25-oct-2006	11-oct-2008	GEL	11%	101	103
JSC Bank of Georgia	13-nov-2006	11-oct-2008	GEL	11%	8	8
JSC Bank of Georgia	15-nov-2006	15-nov-2008	GEL	11%	2	2
JSC Bank of Georgia	22-nov-2006	11-oct-2008	GEL	11%	8	8
JSC Bank of Georgia	30-nov-2006	15-nov-2008	GEL	11%	2	2
JSC Bank of Georgia	22-dec-2006	11-oct-2008	GEL	11%	15	15
JSC Bank of Georgia	26-dec-2006	11-oct-2008	GEL	11%	2	2
<b>Total interest-bearing loans</b>						<b><u>6,190</u></b>

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

(Thousands of Georgian Lari)

## 17. Equity

As of December 31, 2006, authorized share capital comprised 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 December 31, 2006 are described below.

Movements for 2006 in shares outstanding, issued and fully paid were as follows:

	<b>Number of shares</b>	<b>Amount of shares</b>
	<b>Ordinary</b>	<b>Ordinary</b>
<b>24 May 2006</b>	-	-
Issuance of shares	45,259,375	453
<b>31 December 2006</b>	<b>45,259,375</b>	<b>453</b>

Share capital of the Company was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. For 2006, net loss attributable to ordinary shareholders was GEL (864). As of December 31, 2006 weighted average number of ordinary shares outstanding during the period was 20,634,873. Thus, basic earnings per share and diluted earnings per share amounted (0.04) and (0.04) Georgian Lari, respectively. The diluted EPS calculation takes into account potential dilutions to the earnings per share arising from the call option issued to the JSC "Galt & Taggart Securities" (Note 14).

On May 24, 2006 Company issued 15,000,000 shares in exchanged for cash in amount of 15 GEL. On June 6, 2006 company issued 32,500,000 shares in exchange for cash, land and shares of Georgian retail company in amount of 743 GEL, 649 GEL and 334 GEL respectively. Total Share premium comprised 1,401 GEL. On August 11, 2006 company issued 815,100 shares in exchange for cash and shares of Georgian Telecommunication Company in amount of 4,763 GEL and 127 GEL respectively. Total share premium comprised 4,882 GEL. On September 9, 2006 Company issued 184,900 shares in exchanged for land and buildings in amount of 3,091 GEL. Total share premium comprised 3,089 GEL.

On November 30, 2006 Company recognized share Premium in amount of 6,053 as a result of share offering on Georgian Stock exchange. 10,259,375 shares have been sold to Eastinvestor Ltd, Firebird Republics Fund Ltd, Firebird Avorora Fund Ltd and other investors.

In December 2006 the Company has sold 3.9 percent share in its subsidiary, Intertour LLC to its general director. Net gains from this transaction 17 GEL has been recognized directly in equity.

## 18. Commitments and Contingencies

### Operating environment

Georgia continues to undergo substantial political, economic and social changes. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Furthermore, the Georgian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, operations in Georgia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside, onerous currency controls and low liquidity levels for debt and equity markets.

The Company could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Company's assets, and the ability of the Company to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Company's consolidated financial statements in the period when they become known and estimable.

### Legal

In the ordinary course of business, the Company 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 Company.

*(Thousands of Georgian Lari)***18. Commitments and Contingencies (continued)****Financial commitments and contingencies**

As of December 31, 2006 the Company's financial commitments and contingencies comprised the following:

	<u>2006</u>
<b>Operating lease commitments</b>	
Not later than 1 year	783
Later than 1 year but not later than 5 years	2,997
Later than 5 years	2,595
	<u><u>6,375</u></u>

**19. Fees and Commission Income**

During the period from 24 May 2006 to 31 December 2006 revenues from services rendered comprises:

	<u>2006</u>
Income from sale of tickets	357
Income from other tourism services	73
Income from sale of metropolitan coins	166
Income from recreation services provided	92
<b>Fees and Commission Income</b>	<u><u>688</u></u>

**20. Salaries and Administrative Expenses**

During the period from 24 May 2006 to 31 December 2006 salaries and other employee benefits, as well as administrative expenses comprise:

	<u>2006</u>
Salaries and bonuses	531
Social security costs	111
<b>Salaries and benefits</b>	<u><u>642</u></u>
Occupancy and rent	281
Legal and other professional services	45
Marketing and advertising	37
Banking services	30
Office supplies	21
Communication	20
Repair and maintenance	16
Travel expenses	12
Other	20
<b>Other operating expenses</b>	<u><u>482</u></u>

*(Thousands of Georgian Lari)***21. Business Combination**

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:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
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:

	<i>2006</i>
Cash paid	4,589
Less: cash acquired with the subsidiary	(145)
<b>Net cash outflow</b>	<b>4,444</b>

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

**Intertour LLC**

On June 6, 2006 the Company acquired a controlling interest (87.5%) in Intertour LLC - travel agency. The fair value of identifiable assets, liabilities and contingent liabilities of Intertour LLC as of the date of acquisition were as follows:

	<i>Recognized on acquisition</i>	<i>Carrying value</i>
Cash and cash equivalents	137	137
Accounts Receivable	202	202
Property and equipment	3	3
Intangible assets	1	1
Tax Assets	36	36
Prepayments	70	70
	<b>448</b>	<b>448</b>
Accounts payable	690	690
Other liabilities	52	52
	<b>742</b>	<b>742</b>
<b>Fair value of net assets</b>	<b>(294)</b>	<b>(294)</b>
Goodwill arising on acquisition	612	-
<b>Consideration paid</b>	<b>318</b>	<b>-</b>

(Thousands of Georgian Lari)

## 21. Business Combination (continued)

### Intertour LLC (continued)

The total cost of the combination was GEL 317 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	<u>2006</u>
Cash paid	318
Less: cash acquired with the subsidiary	<u>(137)</u>
<b>Net cash outflow</b>	<b><u>181</u></b>

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

Major factor that contributed to the cost of business combination that resulted in the recognition of goodwill was positive synergy result in the Company's operations.

### JSC Prime Fitness

On August 17, 2006 the Company acquired a controlling interest (100.0%) in JSC Prime Fitness - fitness center. The fair value of identifiable assets, liabilities and contingent liabilities of JSC Prime Fitness as of the date of acquisition were as follows:

	<u>Recognized on acquisition</u>	<u>Carrying value</u>
Cash and cash equivalents	–	–
Property and equipment	3,992	3,992
	<u>3,992</u>	<u>3,992</u>
Accounts payable	–	–
	<u>–</u>	<u>–</u>
<b>Fair value of net assets</b>	<b>3,992</b>	<b>3,992</b>
Goodwill arising on acquisition	244	–
<b>Consideration paid</b>	<b><u>4,236</u></b>	<b><u>–</u></b>

The total cost of the combination was GEL 4,236 which was paid fully with cash. The net cash outflow on acquisition was as follows:

	<u>2006</u>
Cash paid	4,236
Less: cash acquired with the subsidiary	<u>–</u>
<b>Net cash outflow</b>	<b><u>4,236</u></b>

If the combination had taken place at the beginning of the period, the net income of the Company would have been GEL (864) and the total revenue would have been GEL 964.

Major factor that contributed to the cost of business combination that resulted in the recognition of goodwill was positive synergy result in the Company's operations.

*(Thousands of Georgian Lari)***22. Segment Reporting**

The following table presents income and profit and certain assets and liability information regarding the Company's business segments for the year ended 31 December 2006:

	<i>Real estate development</i>	<i>Travel services</i>	<i>Business services</i>	<i>Fitness services</i>	<i>Corporate 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>Loss for the year</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>6,036</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, plant and equipment	8,041	57	889	4,058	6	143	13,194
Intangible fixed assets	–	–	37	2	3	10	52
Depreciation	28	3	7	54	–	4	96
Amortization	–	–	1	1	–	–	2

The Company has predominately one Geographical segment, Georgia; therefore no geographic segments disclosure is presented.

**23. 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 Company'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 Company 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 Company's balance sheet at fair value.

	<b>2006</b>	
	<i>Carrying amount</i>	<i>Fair value</i>
<i>Financial assets</i>		
Securities available for sale	350	350
Accounts Receivable	441	441
<i>Financial liabilities</i>		
Derivative financial instrument	201	201
Interest bearing loans and borrowings	6,190	6,190

(Thousands of Georgian Lari)

## 23. Fair Values of Financial Instruments (continued)

The following methods and assumptions are used by the Company to estimate the fair value of these financial instruments:

### Available for sale securities

The fair value of available-for-sale investments equals their carrying value.

### Accounts receivable

The fair value of accounts receivable equals their carrying value.

### Interest bearing loans and borrowings

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end. As of December 31, 2006 fair value of loans and borrowings approximates their carrying value.

### Derivative financial instrument

Market value has been used to determine the fair value of the derivative financial instrument.

## 24. 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 are as follows:

	<i>2006</i>	
	<i>Shareholders</i>	<i>Entities under common control</i>
Trade and other receivables	9	–
Prepayments and other current assets	–	–
Cash and cash equivalents	4,735	–
Deposits with banks	–	–
Interest-bearing loans and borrowings	6,190	–
Trade and other accounts payable	143	–
Services rendered	35	–
Services received	401	2
Finance income	56	–
Finance Costs	145	–

Compensation of key management personnel was comprised of the following:

	<i>2006</i>
Salaries and other short-term benefits	117
Social security costs	23
<b>Total key management compensation</b>	<b>140</b>

*(Thousands of Georgian Lari)*

## 25. Subsequent Events

On February 6, 2007 JSC “SB Real Estate” purchased 100% stake in Vere + Ltd., a limited liability company incorporated under the laws of Georgia, whose main asset is a 4,962 m<sup>2</sup> land plot in the centre of Tbilisi, for the consideration of US\$ 3.5 million. Subsequent to this acquisition the Company has entered into a binding memorandum with JSC “SB Real Estate” to purchase 4/5 of the land plot for the purpose of construction of the new headquarters for the JSC “Bank of Georgia”.

On February 22, 2007 the Company borrowed funds in the amount of GEL 500 from JSC “Bank of Georgia” and purchased 32.05% shares of JSC “Telliani Valley”. The purchase price comprised GEL 3,206.

On March 27, 2007 the Company issued 233,089 authorized shares. The increase of share capital comprised GEL 447.

On May 14, 2007 the JSC “Bank of Georgia” purchased 767,978 authorized shares of the Company. The increase of share capital comprised GEL 1,382.

On May 24, 2007 JSC Populi increased its share capital by GEL 5,964. The Company contributed GEL 3,165, increasing the share in JSC Populi to 22.45%.

During March-June JSC “SB Real Estate” purchased land in Tsavkisi, Grigoleti and Tbilisi in the amount of GEL 1,258, USD 533 thousand and USD 2,513 thousand respectively.