MirLand

Annual report
and accounts
2006

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Company History

2005

Yaroslavl acquisition
02.05

Hydromash-service acquisition
06.05

Saratov acquisition
10.05

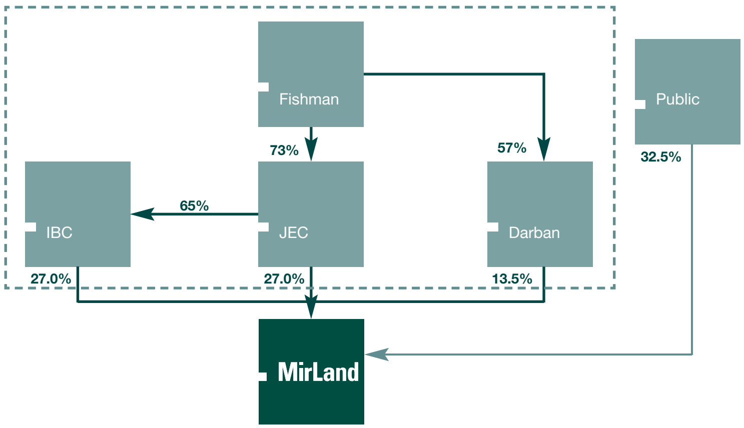
Perkhushkovo acquisition
11.05

MirLand Development Corporation Plc

MirLand Development Corporation is one of the leading residential and commercial property developers in Russia.

MirLand was established in 2004 as part of the Global Fishman Group, an investment group with over US$2bn combined annual income and a strong track record of over 20 years of developing, managing and investing in real estate assets via public companies.

In December 2006 the Company successfully raised net proceeds of approximately US$290m, including the exercise of the over-allotment option, in its IPO on the AIM market of the London Stock Exchange.



2006

MAG acquisition
02.06

St Petersburg acquisition
03.06

Techagrocom acquisition
11.06

MirLand IPO
12.06

Skyscraper acquisition
12.06

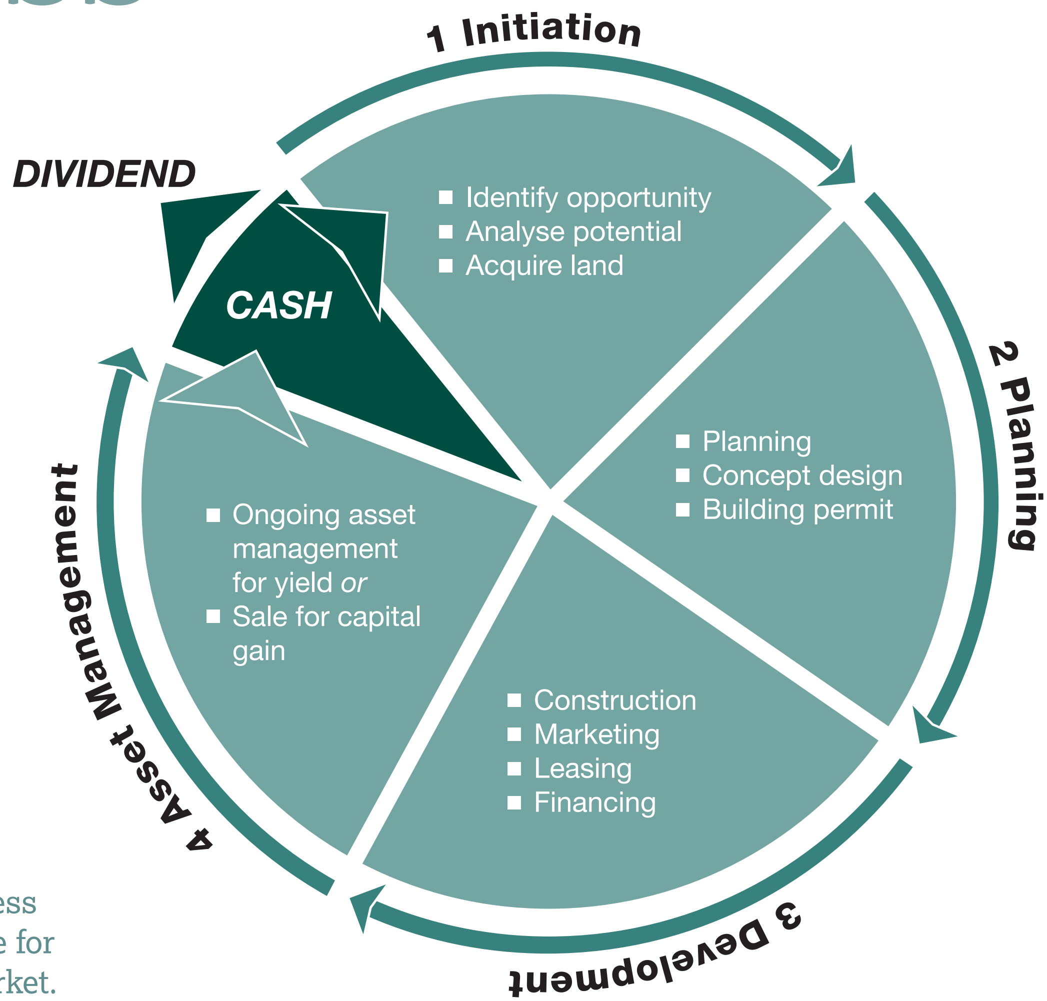
What We Do

- MirLand is mainly involved in the acquisition, development, construction, renovation, rental and sale of residential and commercial real estate in Russia.

- MirLand focuses its efforts on Moscow and St Petersburg, as well as on regional cities with large populations exceeding 500,000 inhabitants, in which it has identified a significant shortage of residential and commercial properties.

- The Company invests primarily in the development of commercial assets with substantial occupancy rates and income flows and in residential properties with a high end sale value.

MirLand's business model



MirLand's fully integrated business model creates a competitive edge for the Company in the Russian market.

Our Investment Strategy

Focus on successful development of projects

- Commitment to the successful and timely completion of seed portfolio projects.

Generate value through active management

- Actively market properties prior to their completion.
- Identify market opportunities to increase yields.
- Divest properties at the optimal time.
- Take advantage of available financing opportunities to enhance return on equity.

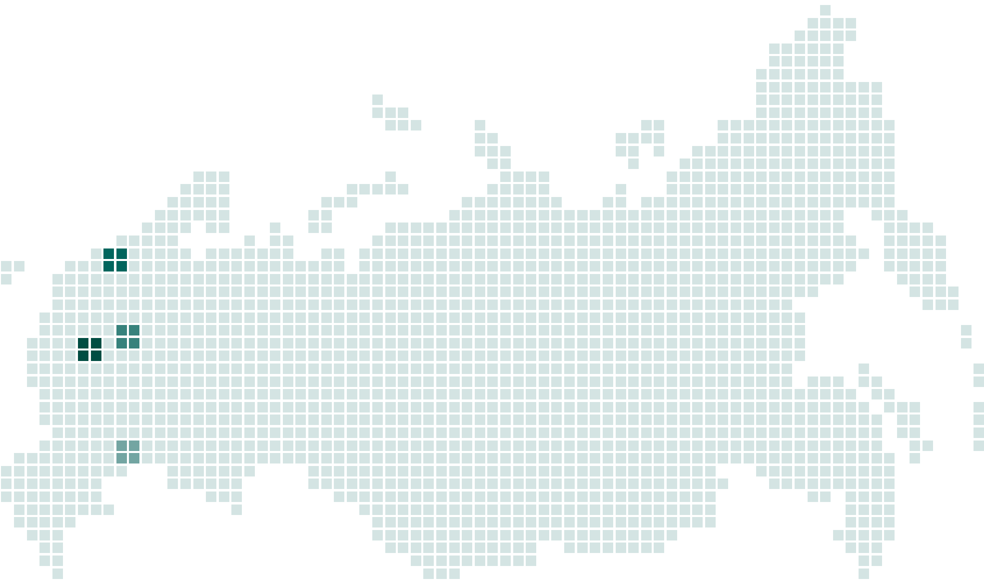
Maintain a diversified portfolio

- Maximise opportunity, while minimising risks, through geographic distribution and asset type.
- Maintain a mixed portfolio of yielding and development projects with varying duration, phasing and anticipated completion dates.
- Residential projects are built for sale and commercial projects are built for generating income.

Acquire attractive sites in targeted locations for future development

- Focus on high quality developments offering higher yields and capital growth.
- Invest in Moscow, St Petersburg and attractive regional cities with more than 500,000 inhabitants.

Portfolio at a glance



Moscow

Renovation of **20,200 sqm** of Class B offices

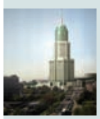
Renovation of **19,450 sqm** of Class B offices

Moscow

155 luxury homes, **56,580 sqm**

174,000 sqm multifunctional business park in three phases

Moscow



92,000 sqm office skyscraper in a prime Moscow location

St Petersburg

670,000 sqm of residential (9,000 apartments)
60,000 sqm of offices,
30,000 sqm of retail

Yaroslavl

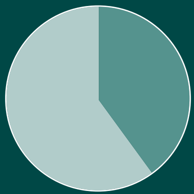
Phase 1 – **32,000 sqm** retail mall

Phase 2 – **50,000 sqm** retail mall/big box retail

Saratov

28,000 sqm of three-storied retail mall

Portfolio projects status



Under development **40%**
Held for development **60%**

By value, as of 31 December 2006

Images are for illustration only

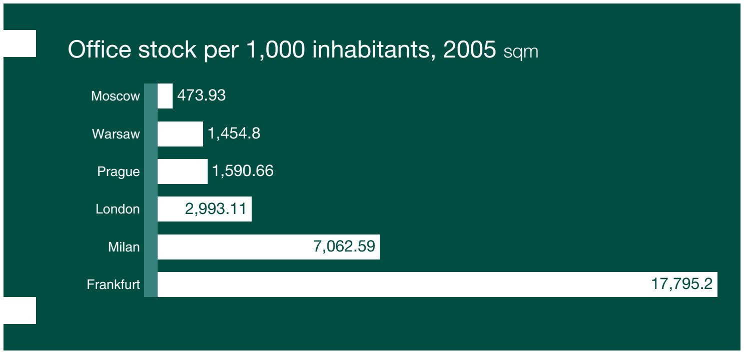
Our Markets

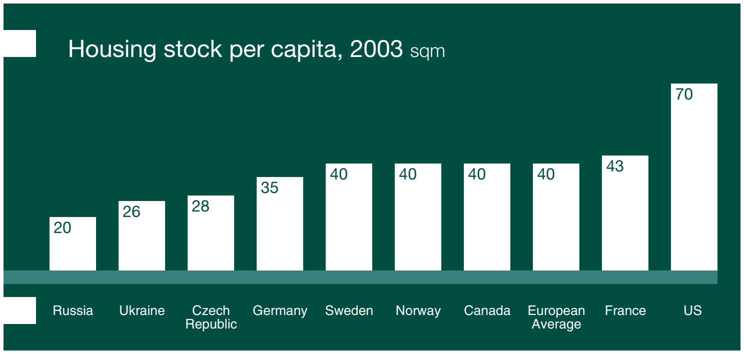
Commercial Real Estate Market Main Characteristics

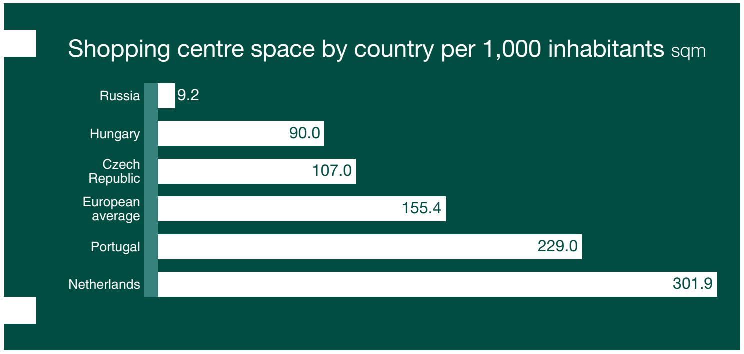
- Shortage of quality and modern retail and office space
- High demand for offices driven by Russian and international companies keeps vacancy rates low despite a high volume of construction
- Increasing use of project finance and decreasing cap rates
- Increasing number of pre-lease and pre-sale deals
- Decentralisation of office locations within Moscow city limits
- Rising disposable income resulting in greater consumer spending and retail turnover
- Significant retail projects in large Russian cities other than Moscow and St Petersburg being launched

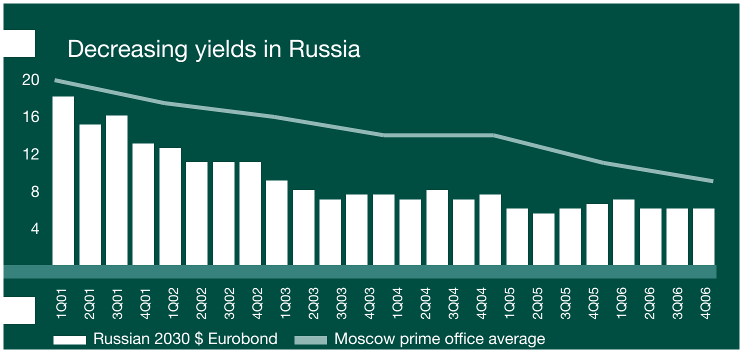
Residential Market Main Characteristics

- The residential market experiences strong growth as the population seeks to improve its living conditions
- According to the Institute of Urban Economics, total demand in Russia is about 1.6bn sqm
- The mortgage market has much room for growth – currently at hardly 1% of GDP compared to 30% in Europe
- In Moscow, average prices for new elite houses has grown by 28%



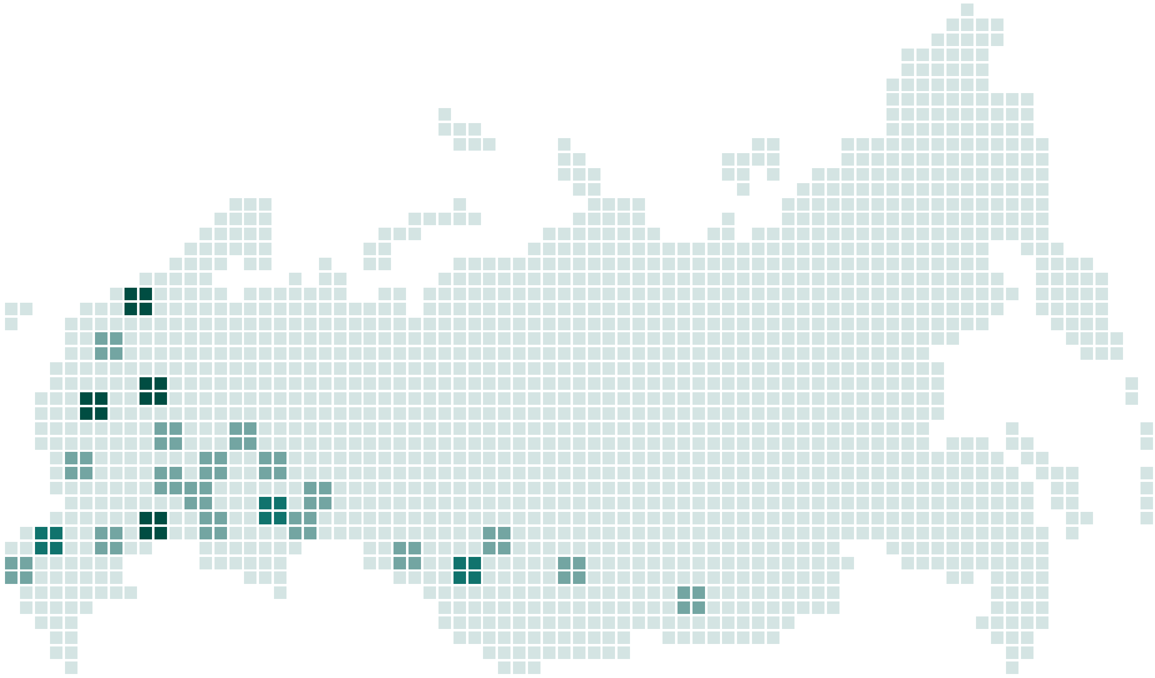






Source: Cushman & Wakefield Stiles and Riabokobylko, UBS

Pipeline at a glance



Cities already in portfolio
(over 500,000 inhabitants)

Moscow
St Petersburg
Yaroslavl
Saratov

Cities in pipeline
(over 500,000 inhabitants)

Rostov-on-Don
Ufa
Novosibirsk

Cities for future penetration
(over 500,000 inhabitants)

Nizhniy-Novgorad
Krasnodar
Volgograd
Ulyanovsk
Voronezh
Toliatti
Kazan
Perm
Izhevsk
Yekaterinburg
Chelyabinsk
Tomsk
Omsk
Krasnoyarsk
Irkutsk

How We Performed

The Company successfully raised net proceeds of approximately US$290m (including the exercise of the over-allotment option) in its IPO on the Alternative Investment Market (AIM) of the London Stock Exchange in December 2006.

Corporate and Financial Highlights
for 31 December 2006

US$29.9m	US$40.1m	US$475.5m	US$916.2m
Profit after tax (10 November 2004 to 31 December 2005: US$3m)	**Income for the year** (10 November 2004 to 31 December 2005: US$4.8m)	**Total assets** (31 December 2005: US$49.9m)	**Adjusted Net Asset Value**

- Eight significant ongoing projects which, on completion, will include approximately 1.2m sqm of office, retail and residential properties.
- US$15.9m of the IPO proceeds already utilised to exercise the first share purchase agreement of the Company's skyscraper project in Moscow.
- Practical completion of the Company's shopping centre mall in Yaroslavl, with opening scheduled for April 2007. The asset is currently 97% pre-let to Russian and international tenants.
- Company in advanced negotiations to secure five additional pipeline projects.


Nigel Wright

I am honoured to be writing my first statement on behalf of the Board of MirLand Development Corporation Plc since the successful flotation of the Company on the Alternative Investment Market (AIM) of the London Stock Exchange in December 2006. I would like to take this early opportunity to thank all those involved in that effort, Directors, staff and advisors alike, for their considerable and successful efforts on the Company's behalf throughout that exercise.

With the closing of the IPO in December we achieved our first goal. Net proceeds of the issue were approximately US$290m (including the exercise of the over-allotment option) and MirLand now has a sound financial base which will enable us both to develop our existing portfolio and complete the acquisition of a number of pipeline projects.

It is also appropriate that I should welcome our new shareholders. We value their participation in MirLand and the Board takes great pride in their involvement in this enterprise. We take our obligations to our shareholders, new and old alike, very seriously and intend to devote all our energies to successfully growing the value of MirLand on their behalf.

We are fortunate to have assembled a highly experienced Board to take the Company forward and I pay tribute to my colleagues who have and continue to show considerable expertise and dedication to building on our existing sound foundations. Our management and employees have not been diverted from the critical aspects of running the business and moving it forward despite the very considerable distractions surrounding our recent flotation and fundraising.

We are committed to sound Corporate Governance and my new Non-executive Board colleagues bring wise counsel and extensive experience in the key areas of property, accounting, finance and business in Russia. We provide detailed information on all our key individuals and our approach to Corporate Governance and controls later in this report.

Strategic Direction

MirLand's key objective is to become one of the leading developers of both residential and commercial real estate in Russia.

Our business is, and will continue to be, the development of residential and commercial projects throughout Russia. This encompasses land acquisition, planning, construction or renovation, rental and sale and MirLand manages this process from start to finish.

We see a great opportunity in the rapidly growing and improving Russian real estate market, not simply in Moscow and St Petersburg, but importantly, in the larger regional cities where populations exceed half a million inhabitants. Demand in such locations continually exceeds supply

MirLand's competitive strengths

and this fact, combined with the relative absence of substantial, high quality, experienced and soundly financed development companies, gives MirLand an exceptional opportunity.

In the residential sector, the Company develops properties for sale. However, in the commercial sector, the Company builds properties which it will then retain and lease, unless it decides that an offer is sufficiently compelling to consider a disposal.

We are fortunate that our central management team consists of a core of professionals with significant experience, not only in national and international real estate developments, but also critically, with deep roots in Russian culture and the Russian business community. My colleagues have considerable business experience in Russia and our key management have, over the past 12 years, been responsible for the development of over 900,000 sqm of commercial property, the construction of 2,500 residential units and the continuing management of approximately 4,400 residential units worldwide.

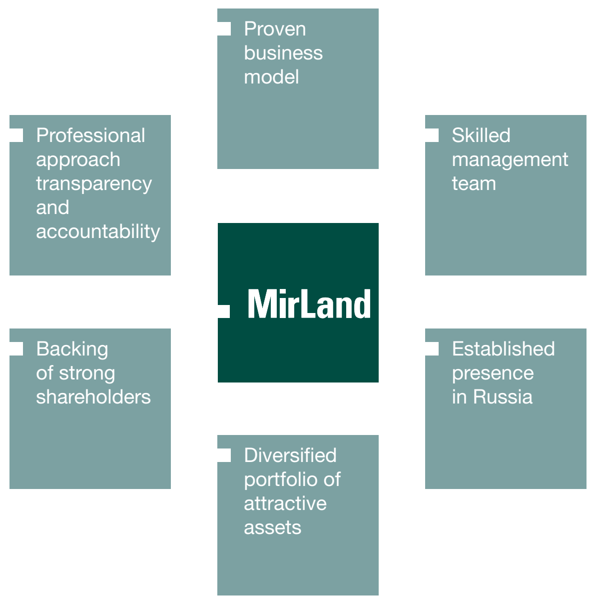
The foundations for MirLand began with the Fishman Group activity in Russia in 2004. MirLand was incorporated in September 2006 through the merging of the existing Russian investment interests of three public real estate companies controlled by the Fishman Group. Fishman in turn continues to hold and manage over 3.5m sqm of real estate worldwide but its continuing investment in MirLand represents its entire involvement henceforth in the Russian market.

Results

Total assets as at 31 December 2006 amounted to US$475.5m in comparison with US$49.9m as at 31 December 2005. The main reasons for the increase were the growth of our investments in land, properties and construction; a prepayment for a purchase of a company which owned a land plot; the revaluation of our assets; and the net proceeds of US$257.2m from the IPO undertaken in December 2006.

Subsequent to the balance sheet date, the exercise of a over-allotment option by the investment banks contributed additional gross proceeds of US$33.2m to the Company.

The Company's real estate assets were valued as at 30 September 2006 at US$853m (for 100% freehold/leasehold rights) by an external independent appraiser (Cushman & Wakefield Stiles & Riabokobylko), in accordance with International Valuation Standards. The Company's share in these assets is US$764.6m. The Company's policy is to revalue its assets twice each year, ordinarily on 30 June and 31 December. However, given the proximity of the valuation produced for the Company's IPO, the Board did not revalue the real estate assets as at 31 December 2006 but has received confirmation from Cushman & Wakefield that their valuation has not decreased since 30 September 2006.



Net profit for the year ended 31 December 2006 was US$29.9m, in comparison with US$3m for the comparative period of 10 November 2004 to 31 December 2005. This increase is largely due to an uplift in the revaluation of the Company’s assets.

Portfolio Progress

I am pleased to report that US$15.9m of the IPO proceeds have already been utilised in the first share purchase agreement of the Company’s skyscraper project in Moscow and we are moving ahead positively. Of this US$15.9m, US$4.5m was used in January, subsequent to the balance sheet date. Our current portfolio comprises eight substantial ongoing projects which, when completed, will comprise circa 1.2m sqm of office, retail and residential properties.

We are also pleased to announce today that the first shopping mall developed by the Company has reached practical completion and will be officially opened in April 2007 in Yaroslavl. This project contains 32,000 sqm of retail space and is 97% pre-let to a range of Russian and international tenants.

In addition, MirLand currently has two office premises under renovation in Moscow, which are income yielding, and we expect rents to significantly increase during 2007. Our other development assets are proceeding in line with expectations.

Dividend Policy

As explained in the Company’s Admission Document, the Company has adopted a dividend policy that will reflect long-term earnings and cash flow potential while at the same time maintaining both prudent dividend cover and adequate capital resources within the business.

Subject to these factors and where it is otherwise appropriate to do so, the Company intends to declare a dividend of 2% of adjusted net asset value, measured at the end of 2008 and 7% of adjusted net asset value at the end of 2009, with a view thereafter to increasing the level of dividend payments in line with the Company’s cash flow growth.

Outlook

In line with our strategy and vision, we continue to develop our existing assets, secure the acquisition of pipeline assets and work towards expanding our investment portfolio with additional high yielding assets.

In conclusion, MirLand has a great opportunity in its chosen markets. With sound and expert management, a solid financial base and an exceptional portfolio of opportunities in hand, we approach the future with considerable optimism. I am confident that the Company will achieve the goals outlined above and become firmly established as one of the leading development companies in the Russian real estate market.

Nigel Wright
Chairman
11 April 2007

Key Performance Indicators

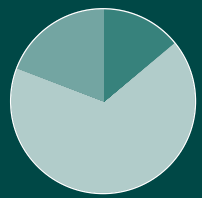
How We are Performing Against our Strategic Objectives

The key performance indicators (KPI) most relied upon by the Company is the Adjusted Net Asset Value (NAV) of its properties, which is based upon the market value of the Company’s property portfolio. This allows the Company’s management to monitor the growth in value created as projects are developed. This measure also monitors the market-driven changes of value in the properties held by the Company.

The Company’s Adjusted NAV figure is determined by reference to the market value of the Company’s property assets as determined by a third party valuation, adjusted to reflect the percentage interests held by the Company, plus its non-property assets minus its total liabilities and to reflect assumed amounts payable under certain management services agreements with senior managers. The following table demonstrates the calculation of Adjusted NAV based on the Cushman & Wakefield valuation report, the audited financial reports and the financial information on the Company.

	As at 31 December 2006 US$m
Market value of the Company’s beneficial share in the properties	764.6
Non-property non-current assets	7.0
Non-current liabilities[1]	(99.1)
Current assets less current liabilities	268.2
Exercise price to purchase two companies which own 100% interest in Moscow land	(20.4)
Adjustment for minority interests and other third party sales obligations in respect of the Cushman & Wakefield valuation[2]	(4.1)
Adjusted net asset value	**916.2**

Segmentation distribution



- Office **14%**
- Residential **67%**
- Retail **19%**

% sqm of Company’s share in portfolio, as of 31 December 2006

Chief Executive's Statement

Moshe Morag

MirLand is in the business of acquisition, development, construction, renovation, rental and sale of Russian residential and commercial real estate. MirLand focuses its efforts on Moscow and St Petersburg, as well as on regional cities with large populations exceeding 500,000 inhabitants, in which it has identified a significant shortage of residential and commercial properties.

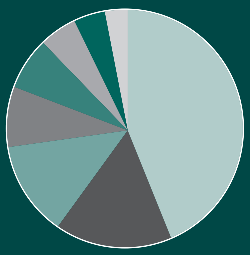
We develop our commercial assets in order to generate rental revenue, but sales will be considered depending on market conditions and if good opportunities exist for more effective recycling of our capital. Residential projects will be sold both during and after construction.

The Company also acquires income-yielding properties with the intention of using its development expertise to upgrade the building through redevelopment or refurbishment activities which we consider to have the potential to significantly increase the value and yield of the property.

For its commercial properties, the Company intends to pre-let its commercial space, with a preference toward securing stable long-term leases with strong anchor tenants. The Company will also consider short-term leases with local companies to benefit from rapidly increasing rental rates.

In each location that MirLand operates, it forms a local dedicated management team which is responsible for developing and/or managing the property. The local teams are controlled and closely monitored by MirLand's senior central management.

Asset value, 100% of portfolio, 31 December 2006:



Name	Value	% of total
St Petersburg	369.3	**44%**
Skyscraper	135.3	**16%**
Techagrocom	107.3	**13%**
Perkushkovo	66.1	**8%**
Yaroslavl	63.0	**7%**
MAG	44.5	**5%**
Hydromashservice	38.4	**4%**
Saratov	29.3	**3%**

Moscow Skyscraper

- Leasehold rights **100%***
- **48** storey office tower
- **Prime Moscow location** near 3rd Ring and adjacent to Metro and Tramp stations
- Rentable area – **92,000 sqm**
- **1,500** parking spaces
- Expected commencement of construction in **03.08**
- Expected completion in **12.10**

* Subject to completion (see note 26b on page 67)

Image for illustration only

Key Macro Economic Indicators

	2002	2003	2004	2005	**2006**
Population (millions)	145.3	144.6	144	143.4	**142.7**
GDP per capita (US$, current prices)	2,372	2,983	4,097	5,325	**7,009**
Real GDP growth rate (%)	4.7	7.3	7.2	6.4	**6.7**
Annual average inflation rate (%)	15.8	13.7	10.9	12.7	**9.8**
Unemployment rate (%)	8.1	8.6	8.2	7.6	**6.6**
Long term interest rates	15.8	8.9	7.8	7.8	**7.7**
Average RUR/US$ exchange rate	31.4	30.7	28.8	28.3	**26.3**
Credit rating	BB	BB	BB+	BBB	**BBB+**

Sources: RosStat, CIA, Central Bank of Russia, Standard & Poor's

Our Markets

Russian economy and real estate market General economic trends in Russia over the last five years have been positive, with strong Gross Domestic Product (GDP) growth, greater domestic liquidity, declining interest rates and increasing investment flow into the country. Those factors were recognised by major credit rating agencies which have conferred an investment grade credit rating on Russia. The dynamic development of the country's economy has stimulated disposable income and retail turnover growth.

On the back of strong economic growth in Russia, Russian real estate markets have developed significantly. Investment tripled from 2005 to over US$4.3bn of equity investments in real estate in 2006, of which 60% were made by foreign investors (source: Cushman & Wakefield). Russia continues to be a dynamic market, offering development opportunities as well as income-producing assets. The legal framework is also improving, giving greater comfort to foreign investors.

Attractive development yields and the increasing sophistication of tenants have spurred demand for new international standard real estate, whereas the influx of core investment capital and the improving local lending terms with an increasing number of foreign banks and financial institutions have led to the compression of current yields for existing properties.

While still fairly new, Moscow's and St Petersburg's modern office markets are quickly maturing, both in terms of size and quality. Both virtually non-existent a decade ago, Moscow's market is now one of Europe's most dynamic markets, showing high volumes of new construction and take-up, with the St Petersburg market displaying the same trends.

Office sector While the stock of international standard office space has more than doubled since 2000, the market still remains under-supplied, with demand far exceeding supply. The lack of high quality office space induces tenants to pre-let larger premises in incomplete buildings to secure sufficient office space for themselves and to allow for future growth, while average vacancy rates for Class A and B offices are amongst the lowest in European cities.

The St Petersburg office market is currently concentrated in the historic centre, a phenomenon that directly relates to the early stage of the market's evolution. As the office market develops further, it is expected that modern office space will be built outside the historic centre.

Capitalisation rates for prime office space are expected to continue to compress over the next three to four years, due to Russia's improved credit rating, the increase in the number of investment-grade buildings, the perception of diminishing levels of political and economic risks, increasing availability and an expected lower cost of debt finance.

Retail sector With disposable incomes steadily growing, retail continues to be one of the most dynamic and fast-evolving sectors of the country's economy. The modern, international standard shopping centres appearing across Moscow and large regional cities are evidence of this trend. While shopping centre stock has more than doubled since 2003, there is still undersupply of modern shopping space. The average size of shop units is also growing consistently and vacancies at international-standard shopping centres remain very low, at roughly 1%.

With very few above-ground sites suited for the construction of new shopping centres remaining in central Moscow, development is expected to be largely concentrated in less central locations. Retail is expected to continue to flourish, and Moscow's shopping centre stock is expected to double by 2009.

While there are some international developers operating in St Petersburg, retail development in the city continues to be dominated by local companies, with international standard, modern shopping centres still a relatively recent evolution.

The country also has numerous regional cities with populations of over 500,000 people, with none or very little modern real estate stock and the primary development activity coming from local developers. Retail constitutes the most attractive segment of this market, stimulated by the growing purchasing power in Russia's regions and little or poor quality retail stock — even in some of the country's largest regional cities. That is why both Russian and international retailers continue to look towards the regions as an attractive growth opportunity.

Residential sector The market for residential property in Russia is characterised by low supply per capita and ageing stock, with some 35% of Russia's housing stock in need of renovation or replacement. Since 1990, the volume of housing stock in Moscow city and the Moscow region has almost doubled. The main reasons for the growth in demand are the growth in salaries and disposable income, the expansion of western enterprises and the subsequent increase in employees needing housing. After a slowdown in 2004, the Moscow residential property market rebounded strongly in 2005, with healthy growth in price and demand in 2006 as well.

Moscow
MAG

Leasehold rights **100%**

Renovation of Class B offices

Land area – **2.3 ha**

Very accessible location **near 3rd ring**

Rentable area – **19,450 sqm**

175 parking spaces

Expected completion in **04.07**

Moscow
Hydromashservice

Leasehold rights **100%**

Renovation of Class B offices

Land area – **1.2 ha**

Very accessible location **near 3rd ring**

Rentable area – **20,200 sqm**

175 parking spaces

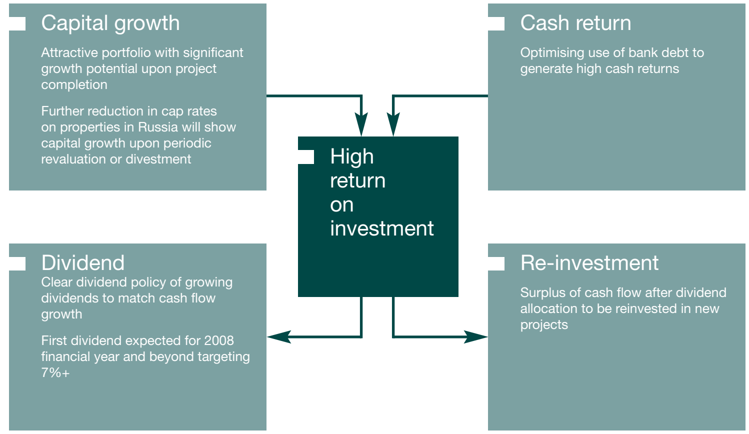
Expected completion in **03.08**

In St Petersburg, the residential real estate market has been experiencing the fastest rate of development over the past couple of years. Housing stock in St Petersburg has grown more or less continuously over the last three centuries. Local residential specialists estimate that, each year, approximately one million square metres of new residential space is coming to the market.

Since many of the old buildings in St Petersburg's centre are of low quality and land is relatively scarce, modern, high-quality residential developments on the city's outskirts have become more attractive in recent years. Residential real estate prices in St Petersburg have shown relatively stable growth over the last few years with average growth rates of between 5 and 15% per year.

MirLand's Strategy

- Actively marketing all of its commercial projects during their development so that they generate income on completion. The Company will continue to reassess whether to retain yielding properties or to realise their market value through disposal;
- Selling residential properties and reinvesting the proceeds in the business or distributing it to shareholders. The Company's strategy is to secure partial pre-sales of residential units in the early stages of construction with phased payments during the development process;
- Acquiring attractive sites in targeted locations for the development of office, retail, other commercial use, mixed use and residential projects. The focus is on high-quality developments which the Company anticipates will result in significantly higher yields than those achieved by investing in completed projects;
- Optimising capital structure. The Company's existing borrowing is done mainly at corporate level and, currently, the Company's level of financing at corporate level is only 20%. As the Russian credit market develops, the Company intends to take advantage of available financing to enhance returns on equity and borrowing will be effected mainly at projects level.
- Maintaining a diversified property portfolio to maximise investment opportunities and reduce risks with regard to geographical location, sector and varying stages of development:
  - Geographical location: the Company intends to spread its investments equally between Moscow and St Petersburg and other opportunities in selected large regional cities with populations of over 500,000 people. It will also make assessments on the basis of economic and demographic data, anticipated demand and where the supply of properties meeting international standards is less than the prevailing demand. Potential projects in such cities will be evaluated on the basis of their estimated rates of return on capital;



  - Sector: the Company will continue to invest in a balanced mix of residential, retail and office properties and will consider other sectors including logistics, hotels and mixed-use projects. Each development site will be evaluated for its most attractive use and highest potential return; and
  - The Company's portfolio includes projects which are of varying duration, phasing, and anticipated completion. The Company intends to hold a balanced portfolio of yielding and development properties to obtain a relatively balanced spread in the use of working capital and management attention while at the same time generating an income flow from sales and yielding properties.

Potential Real Estate Segments

The Company is currently evaluating two new potential target real estate segments to expand its activities in 2007:

Logistics centres The growth of the Russian economy, the increase in consumer spending and many national and international retail companies expanding their activities into Moscow, St Petersburg and the developing regions means that there is growing requirement for high-quality modern logistics property. At present, most logistic centres are concentrated around Moscow, but demand is rising for modern Class A logistic centres in the regions as well. The Company looks forward to applying its strong management track record of developing logistics centres elsewhere in the world to the Russian market as and when attractive opportunities arise.

Hotels There is a significant shortage in hotel rooms matching first class international standards in Moscow, St Petersburg and large regional cities. The Company is assessing entering the hotels development sector in a joint venture with a hotel specialist.

Saratov
Retail mall

- Freehold rights **90%**
- **First** modern multi-storey retail and entertainment centre
- Rentable area – **28,000 sqm**
- Expected commencement of construction date **04.07**
- Expected completion **08.08**

Image for illustration only

The Company's Portfolio

The Company has a diversified portfolio in terms of its operations, geography and timing which we believe will be of strong benefit to our shareholders as we strive to create and enhance value. MirLand's current portfolio comprises a mixture of developments and refurbishments across the office, retail and residential sectors in Moscow, St Petersburg, Yaroslavl and Saratov. The Company intends to expand and further diversify its portfolio by investing in other large regional cities with populations exceeding 500,000 and by examining opportunities in the logistics and the hotel sectors.

The Company's investment opportunities have arisen from a variety of sources, including the Company's existing business relationships and those of its local partners and third parties such as financial institutions, real estate investors and, to a lesser extent, professional advisers. Finally, direct approaches from third-party owners have presented additional investment opportunities.

The Company believes that its portfolio and its investment opportunities provide it with the flexibility to source opportunities with attractive returns while spreading sector and geographic risk exposure within Russia.

The Company's portfolio has been valued by Cushman & Wakefield at US$853.3m as at 30 September 2006, with a proportional value attributable to the Company of US$764.6m, based on the Company's ownership rights of freehold/ leasehold interests. The next revaluation will be carried out in June 2007.

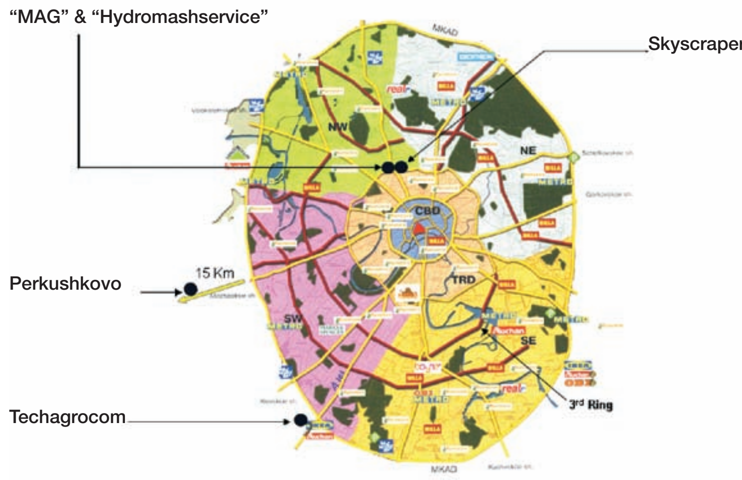
The Company's key projects are as follows:

Hydromashservice (Hydro), Moscow — office and retail development Phased renovation of Class B office complex, located in the north part of Moscow's Novoslobodsky business district. The site benefits from very good transport links and excellent access with 350 parking places shared with the MAG development outlined below.
The project is already yielding US$330,000 per month (as of January 2007) and the yield is expected to grow significantly when renovation is completed.

- Land area – 1.2 ha
- Rentable area – 20,200 sqm
- Expected completion – Mar 2008
- Leasehold rights (%) – 100

MAG, Moscow — office and retail development Phased renovation of a Class B office complex adjacent to the Hydromashservice project in a very accessible location near the 3rd Ring of Moscow and shares car-parking facilities with the Hydromashservice scheme. The project is already yielding US$150,000 per month (as of January 2007) and the yield is expected to grow significantly once the renovation is completed.

- Land area – 2.3 ha
- Rentable area – 19,450 sqm
- Expected completion – Apr 2007
- Leasehold rights (%) – 100



Skyscraper, Moscow — office and retail Office building of a 48 storey Class A office and retail skyscraper, with underground parking, in a prime Moscow location with excellent accessibility near the crossing of two main traffic routes, metro and train stations.

The agreement to purchase the asset was entered in December 2006. The Company effectively owns 79% of the rights in the asset and, upon completion of certain conditions by the seller, the remaining 21% will be acquired. If the seller does not complete his obligations to achieve all construction permits during a period of 36 months, our share will increase automatically to 100% with no additional cost.

- Land area – 1 ha
- Rentable area – 92,000 sqm
- Expected commencement date – Mar 2008
- Expected completion – Dec 2010
- Parking spaces – 1,500
- Leasehold rights (%) – 100 (subject to completion – see note 26b on page 67)

Techagrocom, Moscow Region — business park Three-phase development of a modern business park of 174,000 sqm with 100,000 sqm of office space and a retail complex of 74,000 sqm over two floors. The complex is ideally located near the Leninskiy district near Moscow's 4th Ring.

- Land area – 22 ha
- Rentable area – 174,000 sqm
- Expected commencement date of first phase – Sep 2007
- Expected completion of third phase – Jun 2011
- Parking spaces – 4,000
- Freehold rights (%) – 50

Perkhushkovo, Moscow Region — residential complex Development of 155 townhouse and cottage residential units in the prestigious western outskirts of Moscow. This project is targeting the growing segment of well-to-do professionals who seek to improve their standard of living.

- Land area – 22.5 ha
- Sellable area – 56,580 sqm
- Expected commencement date – Apr 2007
- Expected completion – Sep 2008
- Freehold rights (%) – 100

Moscow

Techagrocom

Retail and Office Sector

- Freehold rights **50%**
- Office and retail park
- Close to **4th Ring**
- Land area – **22 ha**
- Rentable area – **174,000 sqm**
- Construction in **three phases**
- Expected commencement date of first phase **09.07**
- Expected completion date of third phase **06.11**

Image for illustration only

Yaroslavl

Retail Sector

- Freehold rights **49%**
- Located at the entrance road to Yaroslavl from Moscow
- One-storey retail mall on approximately on **13 ha** of 30 ha of land
- Rentable area – **32,000 sqm**
- **1,450** parking spaces
- **97%** of retail space has been pre-leased
- Expected completion in **04.07**
- Phase 2: – **50,000 sqm** rentable area
– Completion date **04.10**

Image for illustration only

St Petersburg — residential and trade centre The Company's flagship project – the development of a complete residential neighbourhood of approximately 9,000 apartments with good accessibility near a major road connecting St Petersburg and its airport. The project also includes commercial areas (office & retail) with underground parking, a commercial centre, kindergartens, school and parks.

The project consists of five phases and will be executed over eight years.

- Total land area – 41 ha
- Sellable/rentable area:
- 9,000 apartments with sellable area of 670,000 sqm
- 30,000 sqm of commercial area
- 60,000 sqm of office space
- 40,000 sqm of community buildings
- 7,500 parking spaces
- Construction of phase 1 is scheduled to begin in summer 2007
- Freehold rights (%) – 100

Yaroslavl – shopping centre – First phase Development of a western standard single floor shopping centre in Yaroslavl. The project is located at the entrance road to Yaroslavl from Moscow, and is scheduled to open in April 2007 with 97% of the asset already let.

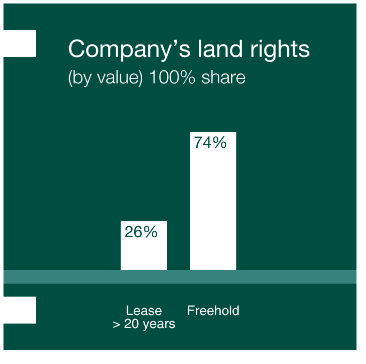
- Land area – approx. 13 ha
- Rentable area – 32,000 sqm
- Expected completion – Apr 2007
- Parking spaces – 1,450
- Freehold rights (%) – 49

Yaroslavl – Big box complex – Second phase Development of a large retail park complex adjacent to the project's first phase.

- Land area – approx. 17 ha
- Rentable area – 50,000 sqm
- Expected commencement date – Sep 2008
- Expected completion – Apr 2010
- Freehold rights (%) – 49

Saratov — retail and entertainment centre The project will be the first modern multi-storied retail and entertainment centre in Saratov. The complex is ideally located near the historical city centre on a well-known and important retail avenue in the city.

- Land area – 2.2 ha
- Rentable area – 28,000 sqm
- Expected commencement date – Apr 2007
- Expected completion – Aug 2008
- Freehold rights (%) – 90



Pipeline

The Company is negotiating the possible acquisition of several assets:

- **Novosibirsk** Class A logistics centre of 180,000 sqm on a major highway (16 ha)
- **Novosibirsk** shopping centre located in a major retail corridor connecting two parts of the city (12 ha)
- **Rostov** Two land plots designated for a single floor shopping centre with ground level parking located on the western side of the city with high accessibility (4.4 ha)
- **Ufa** Logistics centre of 180,000 sqm (30 ha)
- **Moscow** Three sites for the construction of 205,000 sqm of residential area and 55,000 sqm of commercial space (20.6 ha)

We believe that the Company's existing assets and portfolio leave us strongly positioned to deliver enhanced value to our shareholders as we continue to develop and actively manage our strategy.

Moshe Morag
Chief Executive Officer
11 April 2007

Moscow
Perkhushkovo

Freehold rights **100%**

155 luxury homes

Prestigious western outskirts of Moscow, **18km from 4th Ring**

Expected commencement date **04.07**

Expected completion in **09.08**

Image for illustration only

St Petersburg

Freehold rights **100%**

Site located on **main road** connecting the airport and city

Total land area – **41 ha**

9,000 apartments with sellable area of **670,000 sqm**

30,000 sqm commercial area

60,000 sqm office space

40,000 sqm of community buildings

7,500 parking spaces

Construction of Phase A is scheduled to begin in **Summer 2007**

Image for illustration only

MirLand Development Corporation Assets – Overview of Market Values

as of 30 September 2006

CUSHMAN & WAKEFIELD STILES & RIABOKOBYLKO™

We are of the opinion that there have been no downward revisions until December 31 2006.

Reference	City	Property name and address	Market value as at 30 September 2006 US$ million*	Total sqm of land	Projected net leasable area in sqm upon completion (excl. parking)
001	Moscow	Hydromashservice, 2-Khutorskaya str., 38A	38,386,431	12,237	16,517
002	Moscow	MAG, 2-Khutorskaya str., 38A	44,526,085	21,940	16,133
003	Moscow Region	Perkhushkovo, Odintsovsky district	66,122,143	225,300	56,370
004	Saratov	Retail mall, 167 Zarubina street	29,342,139	22,000	25,685
005	Moscow	Skyscraper, Dmitrovskoe schosse, 1	135,254,595	9,079	91,900
006	St Petersburg	Residential	331,134,610	326,651	712,650
007	St Petersburg	Trade Centre, Baumana str., 86	38,195,923	81,663	90,000
008	Moscow Region	Techagrocom, Kaluzhskoe Highway	107,319,913	220,000	174,000
009	Yaroslavl	Trade Centre, Kalinina str.	51,556,613	120,000	32,299
010	Yaroslavl	Remaining unimproved Land Plot of 18 ha	11,450,404	180,000	50,000
Total			**853,288,858***		

* For 100% freehold/leasehold rights.

Explanations

Projected Exit Capitalisation Rate:	The "Projected Exit Capitalisation Rate" represents the expected market capitalisation rate for the projected disposal year of the respective project.
Projected Exit Sales Price:	This value is based on the respective Market Rental Values (net operating income) and the Projected Exit Capitalisation Rate. If the respective project is sold in several phases/years, different capitalisation rate may apply.
Projected Profit Tax on Exit Sales Price:	This column shows the Russian corporate profit tax amount which is expected to be paid upon the sale of the underlying asset. The corporate profit tax rate of currently 24.0% is applied to the difference of the projected exit sales price to the book value.
Total Outstanding Investment (excl. VAT & Land):	This column represents the remaining money to be invested into the respective project (mainly construction costs). It excludes VAT and land acquisition costs.
Total NOI (assuming 100% Occupancy):	This number represents the market rental value under the assumption that 100% of the leasable areas are occupied at the market rental levels.

Comments

Hydromashservice & MAG:	The valuation models have been split into two for each project according to refurbished areas (exit capitalisation rate of 12.6%) and areas currently under refurbishment.
Hydromashservice & MAG:	The column "Projected Profit Tax on Exit Sales Price" shows the corporate profit tax for the uncompleted parts only.
Perkhushkovo	Please note that the Projected Exit Sales Price represents total income before taxes. It is further assumed that all units can be sold on a single unit basis to end users (no Remainders nor Block Sales).
St Petersburg Residential:	Projected Building Area including 42,600 sqm of Community Buildings.
St Petersburg Residential:	Land area of 326,651 sqm is taken out of the whole land plot of 408,314 sqm and split in line with the phases (four for residential and one for commercial).
St Petersburg Residential:	Please note that the Projected Exit Sales Price represents total income over the phases before taxes. It is further assumed that all units can be sold on a single unit basis to end users (no Remainders nor Block Sales).
St Petersburg Trade Centre:	According to the various construction phases the assumed sale of the phases takes place at different dates in time.
St Petersburg Trade Centre:	Land area of 81,663 sqm is taken out of the whole land plot of 408,314 sqm and split in line with the phases (four for residential and one for commercial).
Techagrocom:	According to the three construction phases the assumed sale of the phases takes place at different dates in time.
Yaroslavl, Remaining Land Plot of 18 ha:	According to information provided by the client there is demand for another retail property of 50,000 sqm of lettable area.

Roman Rozental

Financial Summary

Income for 2006 amounted to US$40.1m. Total assets at December 2006 amounted to US$475.5m and equity amounted to US$366.5m. Company adjusted net asset value amounted to US$916.2m. The Company's real estate assets were valued on 30 September 2006 at US$853m (for 100% freehold/leasehold rights) by an external internal appraiser.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Accounting Policy

The Company's financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap 113.

Income Statement

Income for 2006 grew to US$40.1m in comparison to US$4.8m during the period from 10 November 2004 to 31 December 2005.

The Company's revenue consists of two main items: income from investment properties and revaluation gains. Income from investment properties grew due to the purchase of a yielding asset (MAG) on February 2006, and the ongoing process of replacing tenants and raising rental rates in the renovated space in this asset and its adjacent project (Hydromashservice). In accordance with IAS 40 the Company has revalued its "investment properties" for the financial period ended 31 December 2006 and recognised the resulting movement in valuation through its income statement as "gain from revaluation of investment property". This amount of US$35.9m has been determined based on the valuations of the Company's Hydromashservice and MAG projects undertaken by an independent appraiser (Cushman & Wakefield Stiles & Riabokobylko), in accordance with International Valuation Standards.

The principal operating expenses of the Company are property maintenance and management costs which rose from US$0.2m to US$0.9m due to the increase in the number of properties.

The Company's general and administrative expenses for the period rose to US$8.8m compared to US$1.1m for the period of 10 November 2004 to 31 December 2005, mainly due to the provision to management services for MAG and Hydromashservice by an external management company entitled to receive a one-time payment equal to 10% of the profit of the companies, subject to certain adjustments detailed in note 20 of the financial statement, and salaries for the employees, including a share option plan.

Interest expenses for the period were US$5.2m, out of which US$4m was capitalised for properties under construction. Additional financial income of US$3.2m was generated from depreciation of US$ loans in the Russian subsidiaries and deposits of the IPO proceeds.

Tax expenditure in 2006 was US$2.8m. MirLand is resident in Cyprus for tax purposes and is subject to a 10% tax rate. MirLand's subsidiaries in Russia are subject to a 24% tax rate. For additional details see note 10 of the financial statement.

Net profit for the period of 2006 was US$29.9m, in comparison with US$3m for the period of 10 November 2004 to 31 December 2005. This increase is largely due to the revaluations of the assets.

Balance Sheet

Total assets as at 31 December 2006 amounted to US$475.5m in comparison with US$49.9m as at 31 December 2005. The main reasons for the increase were the growth of our investments in land, properties and construction; a prepayment for the purchase of a company which owned a land plot; the revaluation of our assets; and the net proceeds of US$257.2m from the IPO undertaken in December 2006.

Subsequent to the balance sheet date, the exercise of an over-allotment option by the investment banks contributed additional gross proceeds of US$33.2m to the Company.

Equity and Liabilities

Equity as at 31 December 2006 increased to US$366.5m from US$6.7m on 31 December 2005. Equity grew substantially mainly due to the issuance of shares in December 2006 for the net amount of US$257.2m, as well as from the capitalisation of shareholders' loans to equity in the amount of US$62.2m and the net profit of the Company for 2006 which was US$29.9m. Subsequent to the balance sheet date, exercise of the over-allotment option by the investment banks contributed additional gross proceeds of US$33.2m to the Company.

Long-term liabilities as at 31 December 2006 were US$99.1m compared to US$40.5m for 31 December 2005. Major changes were the capitalisation of shareholders' loans to equity to the sum of US$62.2m; the receipt of approximately US$71.4m in loans from banks; a loan received by a subsidiary of the Company (held by 49%) for the amount of US$21.6m; and other liabilities for management services as described above.

NAV

The Company's real estate assets were valued on 30 September 2006 at US$853m (for 100% freehold/ leasehold rights) by an external independent appraiser (Cushman & Wakefield Stiles & Riabokobylko), in accordance with International Valuation Standards. The Company's policy is to revalue its assets twice each year, ordinarily on 30 June and 31 December. However, given the proximity of the valuation produced for the Company's IPO, the board did not revalue the real estate assets as at 31 December 2006 but has received confirmation from Cushman & Wakefield that their valuation has not decreased since 30 September 2006.

The calculation of Adjusted Net Asset Value based on the Cushman & Wakefield valuation and the Company's financial statements is shown on page 11.

Cash Flow

During 2006, the Company used US$90.2m for investment in subsidiaries and real estate properties. Cash flow from financing activity amounted to US$356.4m, mainly generated through receiving approximately US$71.4m in loans from banks; a loan received by a subsidiary of the Company (in which the Company holds 49%) for the amount of US$21.6m; and proceeds from the issuance of shares by the Company which amounted to US$257.2m.

The IPO proceeds were deposited with London financial institutions with an interest rate of 5.22-5.32%.

Financial Strategy

To date, the Company's activities have primarily been financed with equity, shareholder loans and bank financing. The Directors anticipate that the debt market in Russia will continue to develop, making Russian bank debt an attractive financing option which the Company may take advantage of in the future. The financing opportunities open to the Company will be reviewed on a case-by-case basis, and will vary between market segments. The Company's policy is to limit its leverage to 66% of the gross value of the Company's assets, including all development, trading and investment properties.

As Russian real estate finance continues to develop, it is expected that the associated development costs of the Company's commercial projects will be, in optimal circumstances, up to 70% debt financed. On completion, the Company anticipates that its properties will be refinanced on entering the yielding phase, at up to 60% of the relevant property's valuation.

Residential projects, on the other hand, are expected to be principally financed with equity as the financing market for residential projects remains relatively undeveloped in Russia. Accordingly, residential projects are constructed in phases, primarily using the capital from pre-sales to finance upcoming phases of development. The Directors anticipate that the Company will finance its projects by obtaining bank loans in US Dollars.

Wherever possible the Company will seek to acquire finance on a non-recourse basis to minimise risk. The Company is negotiating with several banks for the financing of its ongoing construction activities and has signed two term sheets, one of which has been approved by the European Bank for Reconstruction and Development for the Company's project in Saratov and the second with the IMB for the MAG and Hydromashservice projects. The Company is in the process of finalising the loan agreements.

Outlook

In the forthcoming years, MirLand will use its IPO proceeds to expand its portfolio, acquiring and developing more assets. Fixed assets are anticipated to grow during 2007 as a result of investment in properties and land which will be financed by bank loans and the Company's accumulated cash. In addition, the Company's revenues are anticipated to grow this year as a result of the opening of our first shopping centre project in Yaroslavl, the leasing of existing and newly renovated space in MAG and Hydromashservice, and cash proceeds projected also from the first pre-sales of apartments in advance of the completion of construction of the Company's residential projects.

Market Risks

The Company is exposed to market risks from changes in both foreign currency exchange rates and interest rates.

Foreign currency risk: The Company's functional currency across its operating Subsidiaries is the Rouble, whereas the Company's functional currency is the US Dollar. The majority of the Company's revenue, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US Dollars. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the US Dollar. The Company is exposed to fluctuations in the Rouble pending receipt of refunds or offsets of excess input VAT under Russian VAT legislation. The Company's policy is generally not to enter into currency hedging transactions but hedging will be considered in relation to such VAT refunds.

Interest rate risk: Whilst the Company does not currently have any significant interest bearing assets changes in interest rates could affect the cost of current and future financing.

Credit risk: The Company performs ongoing credit evaluations of its tenants, purchasers and contractors and its financial statements include specific allowances for doubtful accounts. The Company also seeks to mitigate the risk of non-payment in structuring its contractual arrangements with such parties.

Roman Rozental
Chief Financial Officer
11 April 2007

Board of Directors


Nigel Wright


Moshe Morag


Roman Rozental


Caroline Brown


Guerman Aliev

Nigel Wright

Non-executive Director and Chairman, aged 52

Nigel Wright has approximately 30 years' experience in the property, corporate finance and banking sectors. He was managing director of London & Henley Property Holdings Limited, a property investment and development company with a portfolio of retail and office property and of First Residential Investment Limited, which developed around 1,800 residential properties throughout the UK. Nigel spent the first half of his career in banking and corporate finance with Grindlays Bank (now ANZ Group), Bank of America and UBS Phillips & Drew, before joining the board of Mountleigh Group, a UK real estate company where he was responsible for corporate acquisitions and disposals, substantial property acquisitions and disposals, as well as general management and funding throughout the UK and Western Europe and investor relations. He was also managing director of E & F Securities, a private real estate and leisure investment vehicle with interests in the UK, France and USA.

Moshe Morag

Chief Executive Officer, aged 61

Moshe Morag has over 32 years of general managerial experience and 17 years of experience with real estate operations, most of those as the chief executive officer of IBC, Israel's largest real estate company. Moshe is also active as a board member of several non-profit organisations, including the Friends of the Rabin Medical Centre, Israel's largest medical centre.

Roman Rozental

Chief Financial Officer, Certified Public Accountant, aged 38

Roman Rozental has been the chief financial officer of several Israeli and international companies over the past decade and was the chief financial officer of the Filuet Company, an international logistics supplier, with significant operations in Russia. Roman was previously a senior auditor for the Israeli affiliate of PricewaterhouseCoopers, leading a team of auditors, with overall responsibility for tax and audit services for international publicly traded companies.

Caroline Brown

Non-executive Director and chair of the Audit Committee, qualified accountant, chartered director aged 44

Caroline Brown has over 20 years' experience in corporate finance and the financial management of public companies and currently serves as the chief financial officer of Enteraction TV, a digital media company. She has recently served as chief financial officer for two AIM-quoted companies and chaired the Audit Committee for London-listed WSP Group plc, a consulting engineering company active in the international real estate sector. During her career, she has spent 14 years in international investment banking, working for such firms as Merrill Lynch, UBS and HSBC.

Guerman Aliev

Non-executive Director, aged 36

Guerman Aliev is deputy chief executive officer and a member of the management board of Rosbank, Russia's seventh largest bank, at which he has also acted as head of strategy development and implementation. He was previously a director of equity and equity-linked capital markets for Dresdner Kleinwort Wasserstein, London as well as a director of equity-linked capital markets for Merrill Lynch International (UK), where he was involved in a broad range of transactions including equity and fixed income derivatives, convertible bonds and acquisition related finance in Russia, South Africa, Israel and Eastern Europe.

Douglas Blausten

Georgios Hadjianastasiou

Eliezer Fishman

Eyal Fishman

Douglas Blausten

Non-executive Director and Chairman of the Remuneration Committee, Fellow of the Royal Institution of Chartered Surveyors and a General Commissioner of Taxes, aged 55

Douglas Blausten has wide ranging property expertise and is currently the senior partner of Cyril Leonard, a firm of Chartered Surveyors, where he is responsible for corporate services, investment acquisitions and sales, as well as for their offices in Munich and affiliate offices in the US and Paris. Douglas has acted for corporations such as ALSTOM and Alcatel, providing corporate real estate services and strategic property planning. He has held a number of executive and non-executive directorships in public companies and continues to hold the same in private companies whose activities range from real estate and financial services.

Georgios Hadjianastasiou

Non-executive Director and Chairman of the Nomination Committee, aged 67

Georgios Hadjianastasiou has over 25 years' experience in the Cyprus civil service and government, as well as serving in several Cypriot government ministries, including the Ministry of Communication and Works, Ministry of Finance, the Planning Bureau and the Ministry of Defence. He also served as secretary to the Central Planning Commission, as a member of the Economic Advisory Committee and as representative of the Minister of Finance on the board of the Central Bank of Cyprus. Previously, he was director general of the Association of Cyprus Commercial Banks and, until recently, was a member of the Monetary Policy Committee of the Central Bank of Cyprus and of the Council of Economics Experts of the President of the Republic of Cyprus.

Eliezer Fishman

Non-executive Director, Certified Public Accountant, aged 63

Eliezer Fishman has over 45 years' experience in the real estate sector and holds a majority interest in numerous Israeli companies ranging from real estate to communications to various industrial and commercial companies. Outside Israel, Eliezer is mainly involved, through his companies, in real estate. Eliezer is the chairman of several public companies in which he, together with his family and entities controlled by them, holds a controlling shareholding, including in MirLand.

Eyal Fishman

Non-executive Director and Chairman of the Investment Committee, aged 37

Eyal Fishman has served as chief executive officer of various companies in the Fishman group, including Megamart Sport Equipment Ltd., Celio Chains Israel, P.K.P Design Ltd. and Fishman Chains Ltd. and served as chairman of the board of Fishman Retail Chains, a group including eight different chains. Eyal is a member of the board of directors of Darban Investments Limited, one of the Company's significant shareholders, an office he has held for the past 13 years. Eyal Fishman is the son of Eliezer Fishman.

Corporate Social Responsibility

As a new international developer in Russia, MirLand recognises its social responsibility, in particular to the following constituencies:

Investors
We are committed to keep our investors well informed of our business strategy and performance, both through our regular circulars and website and through personal meetings and presentations. In the short time since admission to AIM, the Company's CEO and CFO has conducted several meetings with institutional shareholders and potential investors, in which the management introduced the Company's business strategy and updated investors regarding new developments.

Employees
The Company is committed to safeguard the health, safety and welfare of its employees. Since the Company's inception, no significant injuries, diseases or other dangerous occurrences have occurred in the Company. Our goal for 2007 is to preserve this clean record. For that purpose the Company provides, and will continue to provide, health and safety education to its managers and employees.

Tenants
The Company is committed to preserve the excellent reputation and the high international building standards of the Fishman Group. In particular, the Company is committed to safeguard the safety and maintain the satisfaction of its tenants. Since the Company's inception, no significant injuries or other dangerous occurrences have occurred in the Company's facilities and no material complaint was filed by any of the Company's tenants. Our goal for 2007 is to preserve this clean record.

The Environment
The Company is committed to maintaining the international environmental standards of the Group, and regards regulatory compliance as a minimum standard. A significant portion of management attention is dedicated to the monitoring of the Company's employees and contractors, and their adherence with the regulatory and the internal environmental standards. All property acquisitions are subject to an engineering study, which includes a thorough examination of the environmental impact of the project and an audit of the project's energy and water consumption, waste management, water and air pollution, ozone depletion and the like.

Charity
The Company is in the process of developing its charitable donation policy. So far, the Board has stated its intention to donate to communities in cities and neighbourhoods in which the Company holds and develops real estate projects or to other communities that may approach the Company with an appropriate request for a donation. As an initial resolution, the Company has approved donations in 2007 of US$200,000 without additional approval from the Board of Directors.

Director's Report

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

Principal Activities
During the year the Group has continued its activities of property trading and development.

Review of Business Development and Prospects
Development of the Group's activities and its prospects are reviewed in the Chairman's statement on pages 9 to 11 and the Chief Executive's statement on pages 12 to 20.

Results for the Year
The results of the Group are set out in the consolidated income statement on page 39 which shows a profit for the financial year of US$29.9m (2005: US$3m). The Directors do not recommend the payment of a dividend for the financial year ended 31 December 2006.

Directors
The Directors of the Company who served during the year are listed on page 31.

Directors' and Other Interests
The interests of the Directors in the shares of the Company at 31 December 2006, with comparative figures as at 1 December 2006, are as follows:

Director	**Number of shares as at 31 December 2006**	Number of shares as at 1 December 2006
Nigel Wright	**20,500**	0
Moshe Morag	**0**	0
Roman Rozental	**0**	0
Caroline Brown	**2,050**	0
Guerman Aliev	**0**	0
Douglas Blausten	**18,450**	0
Georgios Hadjianistasiou	**0**	0
Eliezer Fishman*	**200,000**	0
Eyal Fishman*	**200,000**	0

* Eliezer and Eyal Fishman's holding is 200.000 ordinary shares in aggregate, held jointly through an entity controlled by them and their family.

Details of Directors' share options are given on page 37.

Except as disclosed above, as at 27 March 2007, the Company is aware of the following interests amounting to 3% or more in the Company's shares:

	Holding	Percentage holding
Jerusalem Economic Corporation Ltd	**28,000,002**	27.0
Industrial Buildings Corporation Ltd	**28,000,002**	27.0
Darban Investments Ltd	**14,000,001**	13.5
BBHISL Nominees Limited <120317>*	**4,930,800**	4.8
S.N.C. Nominees Limited <OP>*	**3,505,429**	3.4
Goldman Sachs (Nominees) Limited <ILSEG>*	**3,248,414**	3.1

* Shares held by funds managed or advised by the Company indicated, its subsidiaries or independent fund managers.

Each of Jerusalem Economic Corporation Ltd, Industrial Buildings Corporation Ltd and Darban Investments Ltd. are controlled by the Fishman Group which is in turn controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman.

The Company is not aware of any other substantial interests amounting to 3% or more.

Directors' Interests in Significant Contracts

The Company's currently yielding properties in Moscow, Hydromashservice and MAG, have leases in place with Home Centers, a private company controlled by Eliezer Fishman and certain members of his family, including Eyal Fishman. In addition, the Company's property in Yaroslavl has signed a pre-lease agreement with Home Centers. These leases are on standard commercial terms and were concluded on an arm's-length basis.

No other Directors were materially interested in any contract of significance.

Insurance of Directors

The Group maintains insurance for MirLand's Directors in respect of their duties as Directors.

Statement of Directors' Responsibilities

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period and comply with International Financial Reporting Standards (IFRS).

The Directors are responsible for ensuring that applicable accounting standards have been followed and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, have been used in the preparation of the financial statements for the year ended 31 December 2006.

The Directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group. They are also responsible for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial Risk Management

Details of this are included in note 25 to the financial statements.

Charitable Donations

During the year the Group did not make any charitable donations.

Health and Safety

The Company seeks to achieve the highest standards in respect of health and safety of employees, and the safety of tenants.

Auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Ernst & Young Cyprus have expressed their willingness to continue in office as auditors to the Company and Group. A resolution to reappoint them as auditors to the Company will be proposed at the next AGM.

Post Balance Sheet Events

Since Admission, MirLand has announced the completion of the first share purchase agreement for a Cypriot company in connection to the Company's skyscraper development project in Moscow and the exercise of the over-allotment option in connection with the initial public offering (IPO). See note 26 to the financial statements for further details.

By order of the Board

Nigel James Wright
Chairman
11 April 2007

Corporate Governance Report

As the Company's shares are traded on AIM, MirLand is not required to comply with the Combined Code on Corporate Governance, nor to comply with the equivalent corporate governance regime of the Company's country of incorporation, Cyprus. As stated in the Company's Admission Document, however, the Board of MirLand believes that it is essential to maintain the highest standards of corporate governance appropriate for a company of MirLand's size. Accordingly, a statement of how the principles of the Combined Code have been applied in the period since admission to AIM and how it is intended they continue to be applied is given below.

Board Composition, Roles and Independence

MirLand has a balanced Board, which comprises nine Directors. The Board and all the Board committees are dominated by a majority of Non-executive, independent Directors. Each Non-executive Director participates in at least two of the corporate governance committees of the Board and Douglas Blausten is the Senior Independent Non-executive Director.

The roles of Chairman and Chief Executive Officer are distinct. The principal differentiating factors in their respective responsibilities are:

Chairman

Reports to the Board
Only the Chief Executive Officer reports to him
Responsible for running the Board

Chief Executive Officer

Reports to the Chairman
All executive management report to him, directly or indirectly
Responsible for running the business
Responsible for implementing the Board's decisions

Committee membership will be continually reviewed to ensure the most appropriate composition for each committee based upon the skills and experience of the Directors.

The Combined Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. The Combined Code states that the board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The Board has considered the independence of its Non-executive Directors in line with the principles of the Combined Code (section A.3.1) and, following careful consideration, assessed the independence of the Non-executive Directors as follows:

Director	Determination	Notes
Nigel Wright (Chairman)	Independent	No section A.3.1 criteria apply
Caroline Brown	Independent	No section A.3.1 criteria apply
Guerman Aliev	Independent	No section A.3.1 criteria apply
Douglas Blausten	Independent	No section A.3.1 criteria apply
Georgios Hadjianistasiou	Independent	No section A.3.1 criteria apply
Eliezer Fishman	Not independent	Represents a significant shareholder
Eyal Fishman	Not independent	Represents a significant shareholder

Of MirLand's nine Directors, five are Non-executive Directors considered by the Board to be independent, which the Directors consider to be a satisfactory balance for the purposes of decision-making at Board level and in line with the provisions of the Combined Code.

Board Conduct
The Board will meet at least four times each year, for the consideration of strategy and to monitor and evaluate the Group's performance and prospects.

There has only been one "ordinary" board meeting since Admission, held on 12 March 2007. As shown below, all of the Directors attended this meeting.

	March 2007
Nigel Wright	✓
Moshe Morag	✓
Roman Rozental	✓
Caroline Brown	✓
Guerman Aliev	✓
Douglas Blausten	✓
Georgios Hadjianastasiou	✓
Eliezer Fishman	✓
Eyal Fishman	✓

Further to the regular "ordinary" Board meetings, the Board will also meet (if necessary, by teleconference) to consider substantial transactions or issues as they arise. If any Director is unable to attend such meetings, the Chairman will seek to speak to any such Director in advance.

At each Board meeting, there is a formal schedule of matters reserved for the Board's attention which includes:

a) setting the overall strategy;
b) approving major transactions;
c) establishing debt funding strategies, including gearing ratios and other financial risk strategies, such as hedging policies;
d) accounting policies; and
e) operational review.

An annual budget is produced, together with longer-term projections, which are presented to the Board for approval. At each meeting the Board discusses progress against the budget and monitors any variances. Where applicable, revisions are made to expected outturn against which further progress can be monitored.

The Board also discusses in detail the projected financial impact of major proposed acquisitions and disposals, including their financing. All such proposed substantial investments are considered by all Directors.

The above will be subject to continual review and will be updated as appropriate to ensure that the most important matters affecting the business are dealt with by the main Board.

Board packs containing relevant financial and non-financial information are supplied to Directors in advance of each Board/committee meeting. Additional requests for information from Directors are met and Directors are entitled to table agenda items at Board meetings.

The appointment and removal of the Company secretary is a matter for the Board as a whole.

The Non-executive Directors' terms of appointment entitle them to take independent professional advice as required, at the Company's expense.

Retirement by Rotation and Re-election
Directors are, under the Company's articles of association, required to stand for re-election at intervals of no more than three years.

Each of the Directors is subject to approval of election as Directors by the shareholders, this being the first AGM of the Company since their appointment. The Board considers that the performance of each of these Directors has, since their appointment, been effective and that they have demonstrated commitment to their roles. Accordingly, it recommends the election of each of them.

Biographical details of the Directors are given on pages 26 to 27.

Relations with Shareholders

The Finance Director, the Company's CFO, will meet regularly with institutional shareholders and analysts. Additional meetings will be arranged to ensure open dialogue throughout the year. It is proposed that Non-executive Directors should also be available for such meetings, subject to institutional shareholder requests.

Press releases are issued throughout the year and the Company maintains a website (www.MirLand-development.com) on which all press releases are posted and which also contains major corporate information. Additionally, this annual report, which is sent to all registered shareholders, contains extensive information about the Group’s activities. Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Group are welcomed.

The AGM is a key forum for communication with shareholders. All Directors will attend the AGM, and the chairmen of all committees will be available to answer questions. The notice of meeting and annual report and accounts will be sent out at least 20 working days before the meeting. Shareholders are encouraged to attend the AGM to discuss the progress of the Group.

Separate votes will be held for each proposed resolution, including the approval of the Remuneration Committee report, and a proxy count is given in each case.

Investment Committee

On Admission, MirLand formed an Investment Committee. The committee is chaired by Eyal Fishman and its other two members are Nigel Wright and Guerman Aliev.

Its role is to monitor and approve the investment decisions made by the Company’s management and it is responsible for, amongst others, the Company’s real estate and financial investment policy, evaluation of the Company’s real estate portfolio, the review and approval of substantial real estate transactions, including acquisition, sale and lease agreements and for reviewing and reporting to the Board on all potential investments into and disposals from the portfolio.

In the first meeting of each quarter, the Chief Executive Officer will prepare and submit an asset evaluation for review by the Investment Committee. This will be accompanied with a quarterly report including information on all transactions under consideration or that have been approved or executed since the previous report. The Investment Committee will also be responsible for making recommendations of changes to the Company’s business plan.

Nomination Committee

The Nomination Committee consists of three Non-executive Directors. The committee is chaired by Georgios Hadjianistasiou and its other two members are Nigel Wright and Eyal Fishman. The terms of reference of the Nomination Committee are available on the Group’s website and principally relate to preparing selection criteria and appointment procedures for members of the Board and to review on a regular basis the structure, size and composition of the Board. The committee will also consider future appointments in respect of the Board’s composition as well as make recommendations regarding the membership of the Audit and Remuneration Committees.

Internal Control

The Board has overall responsibility for the Group’s internal control and effectiveness in safeguarding the assets of the Group. Internal control systems are designed to reflect the particular type of business and operations risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result internal controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss.

The processes used by the Board to review the effectiveness of the internal controls are through the Audit Committee, internal audit function and the executive management reporting to the Board on a regular basis where business plans, budgets and authorisation limits for the approval of significant expenditure, including investments are appraised and agreed.

The Board also seeks to ensure that there is a proper organisational and management structure across the Group with clear responsibilities and accountability. The Board is also at liberty to engage independent professional advice on risk assessment matters.

Audit Committee
The Audit Committee will meet four times each year, ahead of each Board meeting, reporting any relevant matters to the Board where fit. Attendance of the individual Directors, who all served on the committee throughout the year, is shown below. In the opinion of the Directors, the Audit Committee comprised three independent Non-executive Directors throughout the period, and Caroline Brown has the particular recent, relevant financial experience recommended by the Combined Code.

	March 2007
Caroline Brown (Chairman)	✓
Douglas Blausten (member)	✓
Guerman Aliev (member)	✓

The Audit Committee adheres to detailed terms of reference, which are available for inspection on the Group's website. The Audit Committee must consider, amongst other matters: (i) the integrity of the financial statements of the Company, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises the Board on, risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit-related issues.

The Finance Director, the Company's CFO, is invited to attend meetings of the committee. Once each year the Audit Committee will meet with management without the auditors present and also with the auditors without management present.

Internal Audit
The Company's internal audit function will be outsourced to a certified accountant in Cyprus, nominated from time to time by the Audit Committee, subject to the approval of the Board. The internal auditor will be responsible for the recommendation of an auditing plan to the Audit Committee of the Board. The internal auditor will carry out auditing assignments in accordance with such plan and will oversee and report on the Company's compliance with the plan's recommendations.
The internal auditor will file an annual report with the Audit Committee and the Board and will be available for any meetings of the Audit Committee or Board.

Going Concern
After making enquiries, including the review of future anticipated cash flows and banking covenants, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Share Dealing Code
The Company has adopted a share dealing code for the members of the Board and certain employees which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance with such code by the members of the Board and any relevant employees.

Controlling Shareholders
The Company's founder shareholders, Jerusalem Economic Corporation Ltd., Industrial Buildings Corporation Ltd. and Darban Investments Ltd. have effective control of the Company. The Board is satisfied that MirLand is capable of carrying on its business independently of these founder shareholders and to ensure that all transactions and relationships between the parties are at arm's length and on a normal commercial basis, the Company has entered into a relationship agreement with the founder shareholders. If a conflict of interest arises between the founder shareholders and the Company, none of the Directors who are deemed to be related to the founder shareholders will take part in the Board's decisions on the matter. Currently, these Directors are Moshe Morag and Eliezer and Eyal Fishman.

Report of the Remuneration Committee and Directors' Remuneration Report

This report, in accordance with usual practice, will be put to shareholders for approval at the AGM. Ernst & Young LLP have audited certain parts of this report where indicated.

Remuneration Committee

The Remuneration Committee comprises three independent Non-executive Directors and will meet at least twice each year. The Remuneration Committee is chaired by Douglas Blausten and the other members are Georgios Hadjianastasiou and Caroline Brown. The Remuneration Committee's role is to determine and review, amongst other matters, the remuneration of Executive Directors and any share incentive plans of the Company. In addition, the Remuneration Committee will prepare an annual report on the remuneration policies of the Company. The committee's terms of reference are available on the Group's website.

Remuneration Policy

MirLand's remuneration policy is designed to attract, motivate and retain high calibre individuals to enable the Group to operate strategically for the continued benefit of shareholders, over the long term. The committee aims to provide Executive Directors and senior managers with packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Groups' strategic objectives and enhance shareholder value. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

The remuneration of Non-executive Directors is a matter for the Chairman and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

Within the framework of the agreed remuneration policy the committee determines the remuneration package of the Executive Directors and other senior managers, including the size of, and the performance condition applying to, awards made under the Company's cash bonus, and share option schemes. The committee also advises the Board on employee benefit structure throughout the Group. The Chief Executive Officer and Finance Director may provide advice to the Remuneration Committee as necessary (save in respect of their own remuneration).

Service Contracts and Letters of Appointment

The Executive Directors have rolling service contracts which may be terminated on six-months' notice plus. There are provisions for earlier termination by the Company in certain specific circumstances.

Each Non-executive Director has specific terms of reference. Their letters of appointment state an initial three-year period, with a continuation subject to review at that time. The letters of appointment contain no entitlement to compensation for early termination.

Details of the contracts and appointment dates are set out below:

	Contract date	Notice period
Nigel Wright	27 November 2006	3 months
Moshe Morag	28 November 2006	6 months
Roman Rozental	28 November 2006	6 months
Caroline Brown	27 November 2006	3 months
Guerman Aliev	27 November 2006	3 months
Douglas Blausten	27 November 2006	3 months
Georgios Hadjianastasiou	27 November 2006	3 months
Eliezer Fishman	27 November 2006	3 months
Eyal Fishman	27 November 2006	3 months

Apart from salary and benefits in relation to the notice period described above, there are no other terms in any of the contracts which would give rise to compensation payable for early termination, or any other liability of the Company.

Other Directorships

Eliezer Fishman is chairman of each of Jerusalem Economic Corporation Ltd., Industrial Buildings Corporation Ltd. and Darban Investments Ltd. and Eyal Fishman is a Director of Darban Investments Ltd., all founder shareholders and substantial shareholders of the Company. Although there are no current conflicts of interest, it is possible that the fiduciary duties owed by these Directors to the founder shareholders may give rise to conflicts of interest with the duties they owe to the Group.

Non-performance Related Remuneration

Basic salaries and benefits Basic salaries are reviewed by the Remuneration Committee annually. Uplifts are by reference to cost of living, responsibilities and market rates for all employees and are performed at the same time of year. Executive Directors, along with other senior members of staff, receive a car allowance. Executive Directors are entitled to senior employees insurance.

The Chairman's and Non-executive Directors' fees are reviewed on a bi-annual basis by the whole Board.

Pensions Directors are not entitled to pension plans.

Performance Related Remuneration

Until today, MirLand did not grant performance related remuneration.

Discretionary bonus In 2006 no discretionary bonus was granted.

The auditors have audited the following parts of the Remuneration Report:

Directors' Remuneration

Chairman and Executive Directors	Nigel Wright $000	Moshe Morag $000	Roman Rozental $000	Total $000
Non-performance related remuneration				
Salary and fees	9,879	4,908	13,281	28,068
Taxable benefits	–	–	1,526	1,526
Share incentive plan	–	60,857	24,243	85,200
Total remuneration for the year ended 31 December 2006	9,879	65,765	39,150	114,794
Total remuneration for the year ended 31 December 2005	–	–	–	–

Non-executive Directors	Caroline Brown $000	Guerman Aliev $000	Douglas Blausten $000	Georgios Hadjianistasiou $000	Eliezer Fishman $000	Eyal Fishman $000	Total $000	Total all Directors 2006 $000
Non-performance related remuneration								
Salary and fees	6,586	7,135	6,586	6,586	–	6,586	33,479	61,547
Taxable benefits	–	–	–	–	–	–	–	1,526
Share incentive plan	–	–	–	–	–	–	–	85,200
Total non-performance related remuneration	6,586	7,135	6,586	6,586	–	6,586	33,479	148,273
Total remuneration for the year ended 31 December 2006	6,586	7,135	6,586	6,586	–	6,586	33,479	148,273
Total remuneration for the year ended 31 December 2005	–	–	–	–	–	–	–	–

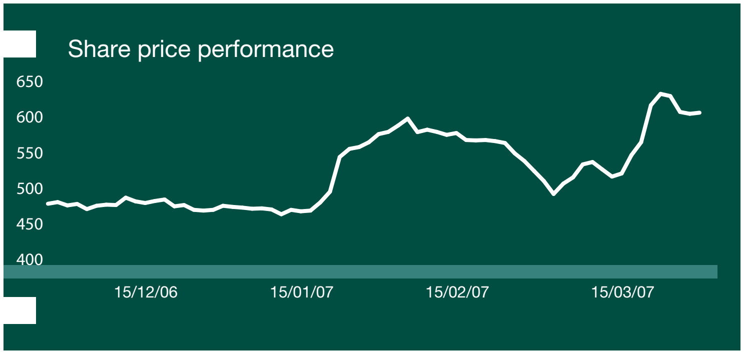
Taxable benefits for Roman Rozental relate to senior employees insurance.

Details of share awards and options exercised in the year are included below.

Director's Share Options

Director	Number of options	Number vested as at 31.12.2007	Exercise price of options US$
Nigel Wright	0	NA	NA
Moshe Morag	1,122,995	0	9.42
Roman Rozental	449,198	0	9.42
Caroline Brown	0	NA	NA
Guerman Aliev	0	NA	NA
Douglas Blausten	0	NA	NA
Georgios Hadjianistasiou	0	NA	NA
Eliezer Fishman	0	NA	NA
Eyal Fishman	0	NA	NA

Share Price Performance



On behalf of the Board

Douglas Blausten
Chairman of the Remuneration Committee
11 April 2007

Independent Auditors' Report to the Members of MirLand Development Corporation Plc

Report on the Consolidated Financial Statements
We have audited the consolidated financial statements of MirLand Development Corporation Plc (the Company) and its subsidiaries (the Group) on pages 39 to 67, which comprise the consolidated balance sheets as at 31 December 2006 and the consolidated income statement, 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.

Board of Directors' Responsibility for the Financial Statements
The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the IASB and the requirements of Cyprus Companies Law, Cap 113.

Report on Other Legal Requirements
Pursuant to the requirements of the Companies Law, Cap 113, we report the following:

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

Other matters
This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap 13, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young
Chartered Accountants
Limassol, Cyprus
12 March 2007

Consolidated Statement of Operations

	Note	**Year Ended 31 December 2006 US$000**	Period from 10 November 2004* to 31 December 2005 US$000
Rental income from investment properties		**3,707**	732
Revenues from managing fees		**533**	–
Fair value adjustments of investment properties	12	**35,878**	4,114
Total income		**40,118**	4,846
Expenses			
Operating expenses	7	**(863)**	(168)
General and administrative expenses	8	**(8,839)**	(1,162)
Financial income (costs), net	9	**2,330**	(148)
Profit before tax expense		**32,746**	3,368
Tax expense	10	**2,797**	368
Profit for the period attributable to the equity holders of the parent		**29,949**	3,000
Earnings per share	11		
Basic		**0.341**	0.451
Diluted		**0.340**	0.451

* Date of inception. See Note 2a.

The accompanying notes are an integral part of the financial statements.

Consolidated Balance Sheet

	Note	31 December 2006 US$000	31 December 2005 US$000
Assets			
Non-current assets			
Investment properties	12	**65,709**	12,863
Investment properties under construction	13	**46,930**	11,358
Inventories of land	14	**76,193**	24,736
Advance on acquisition of subsidiary	15	**1,600**	–
Equipment	16	**1,082**	8,104
Long-term receivables and prepayments	17	**5,958**	–
		197,472	49,061
Current assets			
Trade and other receivables	18	**10,157**	204
Cash and cash equivalents		**267,916**	664
		278,073	868
Total assets		**475,545**	49,929
Equity and liabilities			
Equity			
Equity attributable to equity holders of the parent:			
Share capital	19	**1,000**	7
Share premium		**327,828**	3,717
Options		**2,348**	–
Retained earnings		**32,949**	3,000
Currency translation reserve		**2,402**	(95)
		366,527	6,629
Minority interest		**25**	25
Total equity		**366,552**	6,654
Non-current liabilities			
Long-term loans from shareholders	20	**–**	39,564
Long-term loans from banks	22	**93,049**	–
Other long-term liability	23	**4,313**	582
Deferred taxes	10	**1,755**	301
		99,117	40,447
Current liabilities			
Short-term loan from affiliated company		**–**	460
Income tax payable		**1,207**	57
Accounts payable and accruals	21	**8,669**	2,311
		9,876	2,828
Total liabilities		**108,993**	43,275
Total equity and liabilities		**475,545**	49,929

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors and signed on its behalf by:

Moshe Morag
Chief Executive Officer

Roman Rozental
Chief Financial Officer

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent								Total Recognised Income and Expense	
	Share Capital US$000	Share Premium US$000	Issuance of Options US$000	Retained Earnings US$000	Currency Translation Reserve US$000	Total US$000	Minority Interest US$000	Total Equity US$000	Parent US$000	Minority US$000
Issuance of shares	7	–	–	–	–	7	–	7	–	–
Adjustment in respect of pooling (see Note 4)	–	3,717	–	–	–	3,717	–	3,717	–	–
Profit for the period	–	–	–	3,000	–	3,000	–	3,000	3,000	–
Foreign currency translation adjustments	–	–	–	–	(95)	(95)	–	(95)	(95)	–
Minority interest upon acquisition of subsidiary	–	–	–	–	–	–	25	25	–	–
At 31 December 2005	7	3,717	–	3,000	(95)	6,629	25	6,654	2,905	–
Issuance of shares	693	2,997	–	–	–	3,690	–	3,690	–	–
Capitalisation of shareholder loans (see Note 19)	–	62,192	–	–	–	62,192	–	62,192	–	–
Issuance of shares in IPO, net of expenses[1]	300	258,922	–	–	–	259,222	–	259,222	–	–
Profit for the period	–	–	–	29,949	–	29,949	–	29,949	29,949	–
Issuance of options	–	–	2,348	–	–	2,348	–	2,348	–	–
Foreign currency translation adjustments	–	–	–	–	2,497	2,497	–	2,497	2,497	–
At 31 December 2006	**1,000**	**327,828**	**2,348**	**32,949**	**2,402**	**366,527**	**25**	**366,552**	**32,446**	**–**

1 Issuance expenses consist of US$20,328 thousand.

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Cash Flows

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005 US$000
Cash flows from operating activities:		
Profit before the tax expense	**32,746**	3,368
Adjustments for:		
Interest payable	**2,901**	284
Fair value adjustments of investment properties	**(35,878)**	(4,114)
Depreciation of equipment	**8**	4
Profit on sale of investment property	**–**	(2)
Increase in trade and other receivables	**(4,475)**	(176)
Increase in accounts payable and accruals	**10,060**	352
Income taxes paid	**(1,465)**	(8)
Net cash flows provided by (used in) operating activities	**3,897**	(292)
Cash flows from investing activities:		
Prepayments	**(2,315)**	–
Purchase of equipment	**(892)**	(106)
Purchase of investment properties	**(4,031)**	(825)
Purchase of investment properties under construction	**(16,333)**	(9,332)
Interest capitalised in investment properties under construction	**(3,658)**	(1,220)
Purchase of inventories of land	**(48,235)**	(24,700)
Interest capitalised in inventories of land	**(373)**	–
Advance on acquisition of subsidiary	**(1,600)**	–
Payment of amount due in respect of purchase of subsidiaries	**(1,250)**	–
Net proceeds from disposal of investment property	**–**	(46)
Acquisition of joined ventures, net of cash acquired	**(12,875)**	–
Acquisition of subsidiaries, net of cash acquired	**(5,959)**	(7,766)
Net cash flows used in investing activities	**(97,521)**	(43,995)
Cash flows from financing activities:		
Proceeds from issuance of shares by the Company	**259,222**	7
Proceeds from issuance of shares by subsidiaries included in pooling	**–**	3,063
Proceeds from (repayment of) short-term borrowings from related parties, net	**(460)**	460
Proceeds from long-term borrowings	**87,153**	–
Proceeds from long-term borrowings from related parties	**19,286**	39,696
Repayment of long-term borrowings from related parties	**(8,812)**	–
Net cash flows provided by financing activities	**356,389**	43,226
Increase/(decrease) in cash and cash equivalents	**262,765**	(1,061)
Net foreign exchange differences on cash and cash equivalents	**5,815**	1,725
Cash and cash equivalents at beginning of period	**664**	–
Cash and cash equivalents at end of period	**267,916**	664
Non-cash transactions:		
Payables included for investment properties under construction	**2,481**	843
Acquisition of subsidiaries accounted for under the pooling method (see Note 4)	**–**	654
Capitalisation of shareholders' loans to equity	**62,192**	–
Grant of options (see Note 19)	**2,348**	–
Issuance of bonus shares (see Note 19)	**683**	–

* Date of inception. See Note 2a.

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

Note 1 General

a) MirLand Development Corporation Plc (the Company) (formerly: Bastwick Investments Limited) was incorporated in Cyprus on 10 November 2004 under the Cyprus Companies Law, Cap 113 as a private company limited by shares. Its registered office is located at Thessalonikis Street, Nicolaou Pentadromos Centre, 10th floor, Office 1002, Limassol 3025, Cyprus.

The consolidated financial statements for the year ended 31 December 2006, were authorised for issuance, in accordance with a resolution of the Directors on 12 March 2007.

b) The principal activities of the Company and its subsidiaries (the Group) are real estate investment and development in Russia.

On 18 December 2006, the Company issued 30 million shares in an initial public offering and all of its shares were admitted for trading on AIM. See Note 19 for details.

c) Following are the principal shareholders of the Company as of 31 December 2006:

Shareholder	Rate of Holding
Jerusalem Economic Corporation Ltd. (JEC) (a company traded on the Tel-Aviv Stock Exchange)	28%
Industrial Buildings Corporation Ltd. (IBC) (65%-owned subsidiary of JEC and traded on the Tel-Aviv Stock Exchange)	28%
Darban Ltd. (a company traded on the Tel-Aviv Stock Exchange)	14%

All of the above shareholders are companies that are controlled, directly and indirectly, by the Fishman Group.

On 18 December, 2006, the Company issued 30 million ordinary shares which were admitted to trade in AIM, a market operated by the London Stock Exchange. See Note 19.

Note 2 Summary of Significant Accounting Policies

2.1 Significant Estimates and Assumptions
The preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) requires estimates and assumptions by the Group's management that affect the reported amounts of assets and liabilities. In particular, the assumptions used in the revaluation of investment properties to fair value are inherently subjective due to the individual nature of each property.

The fair value was calculated by an independent appraiser and is based on assumptions about the future cash flows from the asset and the discount rate. Due to the nature of these parameters, such assumptions are subject to significant uncertainty.

2.2 Significant Accounting Practices
a) Basis of Preparation The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in accordance with International Financial Reporting Standards as adopted by the European Union (EU). In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and options for shares which are measured at fair value.

The consolidated financial statements are presented in US Dollars and all amounts are rounded to the nearest thousand ($000) except when otherwise indicated.

The activities of the Group for the period from the date of inception (10 November 2004) to 31 December 2004 were immaterial, and therefore, the statements of operations, changes in equity and cash flows for that period have not been presented separately.

b) The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC 4 – Determining whether an Arrangement contains a Lease

c) Statement of Compliance The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS).

d) Basis of Consolidation The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising therefrom, are eliminated.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Note 2 Summary of Significant Accounting Policies continued

e) Foreign Currency Translation The consolidated financial statements are presented in the US Dollar which is the Company's functional and presentation currency. Each entity of 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 remeasured into the functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are remeasured into the functional currency at the exchange rate ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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. All differences are taken to profit or loss.

As at the reporting date, the assets and the liabilities of the subsidiaries are translated into US Dollars according to the exchange rate prevailing at the balance sheet date and income and expense items are translated into US Dollars at the weighted average exchange rate for the period. The exchange differences arising on the translation are taken directly to a separate component of equity (currency translation reserve). Such translation differences are recognised in the income statement in the period in which the entity is disposed of.

Below is data regarding the representative exchange rates of the Russian Ruble, which is the functional currency of the Russian subsidiaries of the Company:

As of:	Representative Exchange Rate of the Russian Ruble for US$1
31 December 2006	26.33
31 December 2005	28.79
10 November 2004	27.75

Change during the period:	%
Year ended 31 December 2006	(8.54)
10 November 2004 to 31 December 2005	3.75

f) Business Combinations Business combinations in accordance with IFRS 3 are accounted for using the purchase method. On acquisition, the identifiable assets and liabilities are measured at their fair value on the date of acquisition. Any excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the acquisition, a gain is recognised immediately in the income statement.

The interest of minority shareholders is stated at the minority's proportion of the fair value of the assets and any liabilities recognised. Subsequently, any profits or losses applicable to the minority shareholders are attributed to the minority interests in the statements of operations and changes in equity.

g) Acquisition of Businesses from Companies under Common Control The acquisition of businesses from companies under the Company's control are not business combinations within the scope of IFRS 3. The Company accounts for these acquisitions in accordance with the pooling of interests method. Accordingly, the consolidated financial statements have been retrospectively adjusted to reflect the acquisitions as if they had occurred at the beginning of the earliest period presented. Thus, the consolidated financial statements comprise the consolidated financial position, results of operations and cash flows of the Company and of the companies acquired. For those companies that were acquired by the Company under common control subsequent to the beginning of the earliest period presented, the financial statements reflect the acquisitions of those companies from the dates those companies were acquired by the Company under common control.

Note 2 Summary of Significant Accounting Policies continued

h) Investment Properties Properties held for long-term rental, for capital appreciation or both, and that are not occupied by the Company are classified as investment properties.

Investment properties are measured initially 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 cost of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair value of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when 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 income statement 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 ending of owner-occupation, commencement of an operating lease to another party or the ending 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.

For a transfer from investment property to inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Investment property under construction is measured at cost. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

i) Jointly Controlled Entities The Group recognises its interest in jointly controlled entities using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entities with the similar items, line by line, in its consolidated financial statements. The financial statements of the jointly controlled entity are prepared for the same reporting year as the Company, using consistent accounting policies.

j) Equipment Equipment is stated at cost less accumulated depreciation and provisions for impairment. Depreciation is calculated on a straight-line basis, over the estimated useful life of the equipment (five years).

k) Impairment of Assets The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Note 2 Summary of Significant Accounting Policies continued

l) Investments and Other Financial Assets Financial assets within 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, and 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 after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase 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.

As at 31 December 2006, no financial assets have been designated as at fair value through profit and loss (2005: Nil).

As at 31 December 2006, the Group had no held-to-maturity investments (2005: Nil).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

As at 31 December 2006, the Group had no available-for-sale financial instruments (2005: Nil).

m) Derecognition 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 when:

- the rights to receive cash flows from the asset have expired;
- the Group retains 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; or
- the Group has transferred its rights to receive cash flows from the asset and 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.

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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Note 2 Summary of Significant Accounting Policies continued

n) Impairment of Financial Assets The Group 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 loans and receivables 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 expected 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 loss shall be recognised in profit or loss.

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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets Carried at Cost If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

o) Cash and Cash Equivalents Cash equivalents include short-term deposits with an original maturity of three months or less.

p) Interest-Bearing Loans and Borrowings All loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

q) Share Capital Share capital is recognised at the fair value of consideration received. Any excess over the nominal value of shares is taken to the share premium reserve. Costs incurred for issuing new share capital when the issuance results in a net increase or decrease to equity are charged directly to equity. Costs incurred for issuing new share capital when the issuance does not result in a change to equity are taken to the income statement.

r) Dividend Distribution Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Note 2 Summary of Significant Accounting Policies continued

s) Share-Based Payment Transactions Employees (including senior executives and providers of services) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions).

Equity-Settled Transactions The cost of equity-settled transactions with employees and services providers, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 19.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled, ending on the date on which the relevant employees and service providers become fully entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 11).

t) Revenue 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.

Rental income arising from investment properties is accounted for on a straight-line basis over the lease term.

u) Interest Income Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

v) Leases Leases where the Group is the lessor and retains substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and amortised over the lease term on the same basis as rental income.

Where the Group is the lessee, operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Note 2 Summary of Significant Accounting Policies continued

w) Taxes

Current Tax Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Tax Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or from 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales Tax Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Note 2 Summary of Significant Accounting Policies continued

x) Borrowing Costs Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (investment property) are capitalised as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

y) Earnings per Share Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The number of ordinary shares outstanding is retrospectively adjusted for a pooling of interests and in the event of a bonus issue or share split, including those changes that occur subsequent to the balance sheet date but before the financial statements are authorised for issue.

z) IFRS and IFRIC Interpretations not yet Effective 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 Company has not early adopted, as follows:

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (Effective for Financial Years Beginning on or after 1 January 2007)
IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The impact of the above on the Group's financial statements will be additional disclosures concerning financial instruments and management of capital.

IFRS 8, Operating Segments (Effective for Financial Years Beginning on or after 1 January 2009)
IFRS 8 replaces IAS 14, Segment Reporting, and adopts a management 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 income statement, and entities will need to provide explanations and reconciliations of the differences.

This Standard is not expected to have a material impact on the Company's financial statements.

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (Effective for Financial Years Beginning on or after 1 March 2007)
This Interpretation requires arrangements whereby an employee is granted right to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent.

IFRIC 11 is not expected to have a material impact on the Group's financial position and results of operations.

Note 3 Business Combinations and Joint Ventures

a) In June 2005, the Company acquired, Hydromashservice LLC. for a consideration of US$8,950 thousand. Hydromashservice is a private company based in Russia which owns a commercial rental property in Moscow. The carrying value and the fair value of the identifiable assets and liabilities of Hydromashservice at the date of acquisition is as follows:

	Fair Value US$000	Carrying Value US$000
Investment property	8,980	1,076
Receivables	43	43
Cash and cash equivalents	34	34
Payables	(107)	(107)
Net assets	8,950	1,046
Cash paid	7,800	
Amount due	1,150	
	8,950	

b) In February 2006, the Company acquired, Mashinostroenie & Hydravlika OJSC (MAG) for a consideration of US$6,431 thousand, of which US$400 thousand is to be paid in four equal annual instalments commencing in July 2006. MAG is a private company based in Russia which owns a commercial rental property in Moscow. The carrying value and the fair value of the identifiable assets and liabilities of MAG at the date of acquisition (presented in present values) is as follows:

	Fair Value US$000	Carrying Value US$000
Investment property	6,239	462
Receivables	1,326	–
Cash and cash equivalents	72	72
Payables	(840)	(840)
Deferred tax	(436)	(436)
Net assets (liabilities)	6,361	(742)
Cash paid	6,031	
Amount due (at present value)	330	
	6,361	

The financial statements of MAG were initially consolidated in the reported period. The net profits of MAG included in the consolidated statement of operations, for the period from February 2006 to December 2006 amounted to US$22,116 thousand. The effect on profit and loss of the Company had the acquisition of MAG been effected on 1 January 2006, is immaterial.

c) In October 2006, the Company acquired a 50% interest in I.W.W. Astra Estate & Co. (Astra) in consideration of US$12,875 thousand in cash. Astra is a company in Cyprus which owns 100% of the share capital of Techagrocom 2 (Techno) which owns a freehold interest in land intended for development of a mixed-use trade and business park. The land is in a preliminary stage of construction.

Note 4 Acquisition of Business from Companies Under Common Control

On 1 April 2006, the Company, then wholly-owned by JEC, signed an agreement with JEC, IBC and Darban, companies under common control, pursuant to which shares of the Company would be issued to IBC and Darban in consideration for cash and businesses such that JEC would own 40%, IBC would own 40% and Darban would own 20% of the Company's shares. The closing of the agreement was subject to receipt of various approvals, including the approval of shareholders of the companies under common control.

On 30 September 2006, following the receipt of all necessary approvals and pursuant to the above agreement, Darban invested approximately US$2,869 thousand in the Company's equity, in consideration of the issuance of 3,555 ordinary shares of the Company. Also, in accordance with the agreement, IBC, in consideration of the issuance of 7,110 ordinary shares of the Company, invested approximately US$822 thousand in cash and transferred to the Company its holdings in four companies that represented its business activities in Russia. The parties to the agreement also contributed shareholder loans pro rata to their ownership interests in the Company.

The details of the four companies acquired by the Company from IBC are as follows:

Name of Company	Rate of Holding	Business Activities	Date on which the Companies were Acquired by IBC
Creative Com LLC	100%	Owns undeveloped land in Perkhuskovo, Moscow, intended for construction of 97 vacation homes	October 2005
Inverton Enterprises Limited	49%*	Mall under construction in Yaroslavl	March 2005
Mall Project Co. Limited	90%**	Property under construction in Saratov, intended for construction of a mall	October 2005
Petra8 LLC	100%	Owns land in St Petersburg, intended for construction of residential apartments and commercial centre	February 2006

* Jointly controlled entity.
** See also Note 24g.

As this transaction represents the acquisition of businesses from companies under common control, the Company accounted for the transaction in accordance with the pooling of interests method (see Note 2f).

On 13 September 2006, as part of the above transactions, the Company acquired from IBC and Hechevra Lepituach Hamlacha Ltd. the share capital of Felixtowe Holdings Ltd. for US$1,600 thousand in cash (cost of the option deposit referred to in Note 15).

On 13 September 2006, as part of the above transactions, the Company acquired from IBC and Hechevra Lepituach Hamlacha Ltd. (a subsidiary of IBC) the share capital of Dunchoille Holdings Ltd. for US$10 thousand. As of 31 December 2006, this company has no activity.

Note 5 Segment Information

The segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominately by differences in the use of real estate assets of the Company.

Commercial segment leases real estate for commercial purposes, the residential segment develops real estate assets to sale for residential purposes.

The following tables present revenue and profit and certain assets and liability information regarding the Group's business segments.

	Year Ended 2006				Year Ended 2005		
	Commercial US$000	Residential US$000	Eliminations US$000	Total US$000	Commercial US$000	Residential US$000	Total US$000
Revenue							
Rental income from investment properties	**3,707**	**–**	**–**	**3,707**	732	–	732
Revenue from management fees	**533**	**–**	**–**	**533**	–	–	–
Fair value adjustments of investment properties	**35,878**	**–**	**–**	**35,878**	4,114	–	4,114
Inter segment income	**203**	**–**	**(203)**	**–**	–	–	–
	40,321	**–**	**(203)**	**40,118**	4,846	–	4,846
Segment results	**33,289**	**(289)**	**–**	**33,000**	4,123	(290)	3,833
Unallocated expenses				**(2,584)**			(97)
Net finance income (costs)				**2,330**			(368)
Profit before income tax				**32,746**			3,368
Tax expense				**2,797**			368
Profit for the year				**29,949**			3,000
Assets and liabilities							
Segment assets	**109,433**	**98,978**		**208,411**	25,134	24,736	49,870
Unallocated assets	**–**	**–**		**267,134**	–	–	59
Total assets				**475,545**			49,929
Segment liabilities	**8,477**	**2,743**		**2,743**	5,404	–	5,404
Unallocated liabilities				**106,250**			37,871
Total liabilities				**108,993**			43,275
Other segment information:							
Capital additions	**25,660**	**48,608**		**74,268**	12,220	24,700	36,920
Depreciation		4		4			

Note 6 Jointly Controlled Entity

The Company acquired a 49% interest in Inverton Enterprises Limited and a 50% interest in Astra and a 50% interest in Winta Holdings Ltd, jointly controlled entities which are consolidated in the Company's financial statements using the proportionate consolidation method.

The Company's share of assets and liabilities of the entities included in the consolidated balance sheets are as follows:

	31 December 2006 US$000	31 December 2005 US$000
Current assets	**1,924**	58
Non-current assets	**42,630**	3,643
Current liabilities	**1,163**	234
Non-current liabilities	**22,056**	3,447

The Company's share of income and expenses included in the consolidated statements of operations:

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005 US$000
Income	**103**	265

Note 7 Operating Expenses

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005 US$000
Maintenance of property[1]	**774**	102
Land lease payments	**49**	36
Fee to management company	**40**	30
	863	168
	201	–

1 Including maintenance of managed buildings

Note 8 General and Administrative Expenses

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005* US$000
Office maintenance	**85**	133
Professional fees	**1,096**	336
Salaries[1]	**3,152**	16
Depreciation of equipment	**8**	4
Write-down of advance on account of investment[2]	**129**	–
Provision to service provider (see Note 23)	**3,588**	581
Other costs	**781**	92
	8,839	1,162

1 2006 – Included expense in the amount of US$2,348 thousand in respect of issuance of options to employees, see Note 19.
2 The Company paid US$129 thousand as an advance on account of investment in a Russian company, which owns land in Nijnii Novgorod. The advance is not refundable. The Company decided to cease the negotiations concerning the purchase of the Russian company. Therefore, the advance on account of the investment was written off.

The fee in consideration of the audit is in the amount of approximately US$305 thousand.

The fee to directors is approximately US$28 thousand (the yearly fee is approximately US$70 thousand).

Note 9 Financial Income (Costs), Net

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005* US$000
Total interest cost	**(5,257)**	(1,220)
Less – amounts capitalised	**4,031**	936
Interest cost, net	**(1,226)**	(284)
Income from interest on cash in bank[1]	**399**	–
Other (principally exchange rate differences)	**3,157**	136
Financial income (costs), net	**2,330**	(148)

1 The money received from IPO is invested in short-term deposits. The interest accrued on the deposit in presented together with the deposit in cash and cash equivalents.

Note 10 Taxation

a) Tax expense:

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005* US$000
Current taxes	**1,901**	9
Deferred taxes	**896**	359
Tax expense in statement of operations	**2,797**	368

b) A reconciliation between the tax expense in the statements of operations and the product of profit before tax multiplied by the current tax rate can be explained as follows:

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005* US$000
Profit before tax expense	**32,746**	3,368
Tax at the statutory tax rate in Cyprus (10%)	**3,275**	369
Increase/(decrease) in respect of:		
Temporary differences in respect of which no deferred tax was recorded*	**(8,611)**	(847)
Effect of different tax rate in Russia (24%) and Hungary (16%)	**5,220**	494
Effect of change in tax law in Russia	**1,289**	–
Prior-year expenses	**908**	–
Losses for which deferred tax assets were not recorded	**403**	208
Other	**313**	144
Income tax expense	**2,797**	368

* The fair value adjustments of the investment properties result in a temporary difference between the carrying value of the properties and their tax basis. Since it is the intention of management to sell the companies holding these properties rather than the properties themselves, deferred taxes on the above differences have not been recorded. See Note 12.

Taxation in Russia The taxation of companies under the Russian Federation is as follows:

Income tax – 24% of profits;
VAT – 18% of sales;
Asset tax – 2.2% of the net book value of fixed assets.

Taxation in Cyprus The Company is resident in Cyprus for tax purposes. The taxation of companies is based on tax residence and all companies are taxed at the rate of 10%. A special levy of 10% is imposed on interest received and deemed interest income in certain cases. Dividend income and profits from the sale of shares and other titles of companies are exempt from taxation. There is no withholding tax on payments of dividends to non-resident shareholders or shareholders that are companies resident in Cyprus. Payments of dividend to shareholders that are physical persons resident in Cyprus are subject to a 15% withholding tax. Companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. A special levy at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year during the following two years. This special levy is payable for the account of the shareholders.

Note 10 Taxation continued

c) Deferred taxes:

	31 December 2006 US$000	31 December 2005 US$000
Opening balance	**301**	–
Additions from purchase of subsidiaries	**436**	–
Charged to the statement of operations	**896**	359
Exchange rate differences	**122**	(58)
Closing balance	**1,755**	301

Note 11 Earnings Per Share

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005* US$000
Weighted average number of ordinary shares used for computing basic earnings per share*	**87,827,563**	6,648,717
Weighted average number of ordinary shares used for computing diluted earnings per share*	**87,975,799**	6,648,717

* Retrospectively adjusted for the pooling of interests (see Note 4) and for the share subdivision (see Note 19).

Note 12 Investment Properties

	US$000
At 10 November 2004	–
Additions from acquisition of subsidiary	8,980
Additions for the period	825
Disposals for the period	(44)
Fair value adjustment	4,114
Exchange rate differences	(1,012)
At 31 December 2005	12,863
Addition from acquisition of subsidiaries	6,239
Additions for the period	4,031
Fair value adjustments	35,878
Exchange rate differences	6,689
At 31 December 2006	65,709

The investment properties are stated at fair value, which has been determined based on valuations performed by independent appraisers (Cushman & Wakefield Stiles & Riabokobylko and Cushman & Wakefield). The fair value represents the amount at which the assets could be exchanged between a willing buyer and willing seller in an arm's-length transaction at the date of valuation, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, in accordance with International Valuation Standards. The valuations are based on the income approach. In the case of completed and operating buildings, this approach involves a direct capitalisation of the net income and, in respect of buildings under renovation, a discounted cash flow analysis.

Note 12 Investment Properties continued

The fair value adjustments of the investment properties result in a temporary difference between the carrying value of the properties and their tax basis. Since it is the intention of management to sell the companies holding these properties rather than the properties themselves, deferred taxes on the above differences have not been recorded. However, the fair values of the properties have been reduced in 2006 and 2005 by US$17,202 thousand and US$3,442 thousand, respectively, to reflect the fair values of the deferred tax liabilities that the Company would transfer to a buyer upon the sale of the companies owning the properties. The reduction was calculated based on the 24% income tax rate in Russia. The Company's management believes that the actual amount of the reduction might be substantially lower due to economic benefits that the buyer will be entitled to, based upon the differences arising from the method of disposal, i.e. direct asset sale or share sale.

Note 13 Investment Properties Under Construction

	US$000
At 10 November 2004	–
Additions for the period	10,175
Capitalised interest	1,220
Exchange rate differences	(37)
At 31 December 2005	11,358
Additions from purchase of joint ventures	12,875
Additions for the period	17,971
Capitalised interest	3,658
Exchange rate differences	1,068
At 31 December 2006	46,930

Investment properties under construction are presented at cost.

Note 14 Inventories of Land

	US$000
At 10 November 2004	–
Additions for the period	24,700
Exchange rate differences	36
At 31 December 2005	24,736
Additions for the period	48,235
Capitalised interest	373
Exchange rate differences	2,849
At 31 December 2006	76,193

Inventories of land are intended for construction of residential apartments and vacation homes that are to be sold, and are presented at cost.

Note 15 Advance on Acquisition of Subsidiary

During the year 2006, the Company paid US$1,600 thousand, in consideration of entering into a framework agreement relating to the purchase of the entire issued share capital of a Cypriot company that holds a 58% interest in a Russian company that has the leasehold rights in land to be used for the Company's skyscraper development project in Moscow.

On 28 December 2006, the Company signed the framework agreement.

The closing of the framework agreement was subsequent to the balance sheet date.

Note 16 Equipment, Net

	US$000
At 10 November 2004, net of accumulated depreciation	–
Additions for the period	106
Depreciation for the period	(4)
Exchange rate differences	2
At 31 December 2005, net of accumulated depreciation	104
Additions for the period	892
Depreciation for the period	(8)
Exchange rate differences	94
At 31 December 2006, net of accumulated depreciation	1,082
At 31 December 2005	
Cost	108
Accumulated depreciation	(4)
Net carrying value	104
At 31 December 2006	
Cost	1,094
Accumulated depreciation	(12)
Net carrying value	1,082

Note 17 Long-Term Receivables and Prepayments

	31 December 2006 US$000	31 December 2005 US$000
Prepayments (1)	**2,315**	–
Long-term receivables (2)	**3,643**	–
	5,958	–

1 Represent a prepayment of approximately US$2,315 thousand in May 2006 to the seller of MAG for registration services to extend the use of property owned by MAG (see Note 24i).
2 Comprise VAT of approximately US$3.6 million, which was paid upon the purchase of land and which the Company expects to recover more than 12 months from the balance sheet date.

Note 18 Trade and Other Receivables

	31 December 2006 US$000	31 December 2005 US$000
Trade receivables	**2,896**	5
Prepayments to suppliers	**1,622**	–
Government authorities	**1,606**	193
Advances paid for IPO	**1,053**	–
Other	**2,980**	6
	10,157	204

Note 19 Share Capital

	31 December 2006 Number of shares	31 December 2005 Number of shares
Authorised, issued and fully paid shares of US$0.01 par value each	**100,000,005**	711,000

The Company was incorporated with an issued share capital of C£5,000, divided into 5,000 ordinary shares of C£1 par value each. On 10 October 2005, the Company's authorised share capital was subdivided into 7,110 ordinary shares of US$1 par value each and was paid. The changes in share capital of the Company in the year 2006 are as follows:

Date	Nature of Change	Number of Authorised Shares after the Change	Number of Issued and Fully Paid Shares Before the Change	The Change	After the Change	Share Capital US$000	Value par Value US$
12 August 2006	Issues of shares in respect of pooling of interests (see Note 4)	17,775	7,110	10,665	17,775	17	1
13 August 2006	Subdivision of share capital	1,777,500	–	–	1,777,500	17	0.01
13 August 2006	Increase in authorised share capital	70,000,000	–	–	–	17	0.01
19 November 2006	Issuance of bonus shares	70,000,000	1,777,500	68,222,500	70,000,000	700	0.01
19 November 2006	Increase in authorised share capital	1,200,000	–	–	70,000,000	700	0.01
19 November 2006	Issuance of shares in consideration of capitalisation of loans	1,200,000,000	70,000,000	5	70,000,005	700	0.01
18 December 2006	Issue of shares	1,200,000,000	70,000,005	30,000,000	100,000,005	1,000	0.01

On 18 December 2006, the Company issued 30 million ordinary shares at a price of GBP 4.78 per share in an initial public offering (IPO), and all of its ordinary shares were submitted for trading in AIM, a market operated by the London Stock Exchange. The proceeds received from the IPO amounted to US$259,222 thousand, net of issuance expenses of US$20,378 thousand.

Dividend policy The Company adopted a dividend policy which reflects the long-term earnings and cash flow potential of the Company, taking into account the Company's capital requirements, while at the same time maintaining an appropriate level of dividend cover. Subject to these factors, and where it is otherwise appropriate to do so, the Company intends to declare a dividend of 2% of the adjusted NAV on Admission (taking into account the net proceeds of the placing) for the financial year 2008, and 7% of the adjusted NAV on Admission (market value of company's property assets, as determined by a third-party valuation, adjusted to reflect the percentage interests held by the Group, plus its non-property assets minus its total liabilities minus assumed amounts payable under certain management services agreements with Senior Managers) for the financial year 2009, with a view to increasing the dividend in line with the Company's cash flow growth in the future.

Note 19 Share Capital continued

Share option scheme The Company has two share option plans, the share option scheme, which was adopted by the Company on 19 November 2006 (the adoption date), one for options immediately vested and the second is for options vested in three years.

In the issuance that took place on 18 December 2006, options to purchase 1,871,658 ordinary shares were granted under the share option scheme to employees (options to employees). The exercise price of the options to employees will be equivalent to the price in the proposed placing of the ordinary shares (GBP 4.78 per share). The options to employees will vest over three years from the grant date, in equal tranches from the anniversary of the grant date. Termination of employment renders the options that are not yet vested expired. The options are to be exercised within five years from the grant date, otherwise they expire. An option also expires within three months from the date on which employment is terminated.

Also, in the issuance that took place on 18 December 2006, options to purchase 1,497,326 ordinary shares were granted under the share option scheme to officers of subsidiary companies of the Company (options to officers).

The terms of half of the options to officers are the same as the terms of options to employees. The options to officers will vest over three years from the grant date, in equal tranches from the anniversary of the grant date. Termination of employment renders the options that are not yet vested expired.

Half of the options to officers are vested on the grant date. The options are to be exercised within five years from the grant date, otherwise they expire.

Details on equity-settled share-based payment transaction:

	2006 US$000	2005 US$000
Fair value of the options	**8,823**	–
Less – recognised on expense in the statements of operations	**(2,348)**	–
Expense to be recognised in the future	**6,475**	–

The following table lists the binomial model used for the plans for the year ended 31 December 2006:

	Vested on Grant Date
Expected volatility (%)	31.89
Risk-free interest rate (%)	5
Expected life of option (months)	6
Weighted average share price (€)	4.78

	Vested over Three Years
Expected volatility (%)	31.89
Risk-free interest rate (%)	5
Expected life of option (months)	24
Weighted average share price (€)	4.78

The expected life of the options is based on historical data and the Company's expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The volatility was calculated according to comparative data of companies with similar activity.

No options were exercised as of the balance sheet date.

The options were appraised by an independent appraisal company.

Note 20 Related Parties

a) Transactions with related parties:

	Year Ended 31 December 2006 US$000	Period from 10 November 2004 to 31 December 2005* US$000
Interest expense to shareholders*	**4,498**	1,220
Interest expense to affiliated company	**–**	12
	3,626	936

* Includes amounts capitalised

b) Balances with related parties:

	31 December 2006 US$000	31 December 2005 US$000
Loans from shareholders	**–**	39,564
Short-term loan from affiliated company	**–**	460

Terms and conditions of loans:

The loans were partly repaid and partly converted to equity, see Note 19.

c) For details of agreements with related parties – see Note 24.

d) Compensation of key management personnel of the Group

	31 December 2006 US$000	31 December 2005 US$000
Salaries[1]	**40**	–
Share-based payments	**101**	–
Total compensation paid to key management personnel	**141**	–

1 Key personnel were appointed at the end of the year 2006.

Note 21 Accounts Payable and Accruals

	31 December 2006 US$000	31 December 2005 US$000
Trade payables	**2,385**	932
Prepayments	**783**	–
Rent received in advance	**–**	181
Payment due on account of purchase of subsidiary (see Note 3)	**300**	1,150
Other creditors in connection with IPO	**3,413**	–
Accrued expenses and other payables	**1,788**	48
	8,669	2,311

Note 22 Long-Term Loans from Banks

In October 2006, the Company received approximately US$71.4 million in loans from banks guaranteed by shareholders. The bank loans bear annual interest at rates of LIBOR plus 1.1% to 1.25%. The repayments will begin in 2008 and the maturities are in 2011.

A subsidiary of the Company is engaged into a loan of about US$21 million (as of 31 December 2006, the fair value of the loan is US$22,855 thousand) that bears interest at an annual rate of 12%. The repayments of the loan will begin in 2008, and the maturity is in 2011.

The long-term loans are repayable in the following years starting 2008:

	US$000
2008	47,039
2009	17,318
2010	17,318
2011	11,374
	93,049

Note 23 Other Long-Term Liability

	US$000
At 10 November 2004:	
Provision to service provider	581
Exchange rate differences	1
	582
At 31 December 2005:	
Provision to service provider	3,588
Exchange rate differences	143
At 31 December 2006	4,313

According to the management services agreement between MAG, Hydromashservice LLC (the companies) and FIN LLC (the service provider), the service provider shall be entitled to receive a one-time payment equal to 10% of the net profit (as defined below) of the companies from the sale of properties, if they are sold to a third party.

Note 23 Other Long-Term Liability continued

The net profit in relation to these properties is calculated as: the price of the property paid by the third party, less any expenses that the companies incurred as a result of such sale, less repayments of any external debt of the companies, and only after the balance of any outstanding shareholder loans plus an annual interest of 10% have been repaid in full to the relevant shareholder and/or repayment of any other third-party financing relating to said property. The amounts paid for the acquisition of the companies at the date of acquisition and thereafter will be treated as shareholders' loans to the Company for the purposes therein.

The Company has accounted for this payment as an interest in the profits of MAG and Hydromashservice. Accordingly, a liability measured at fair value has been recorded based on the fair value of the properties as recorded in the financial statements at each balance sheet date.

Note 24 Commitments and Contingencies

a) Group as lessee:

The subsidiaries of the Company entered into agreements for the lease of land. These operating leases have terms of between four years and 20 years with a renewal option. One lease has a provision for rent review.

Future minimum lease payments are as follows:

	US$000
First year	163
After one year but no more than five years	493
More than five years	1,055
Total	1,711

b) Group as lessor:

Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2006 are as follows:

	US$000
Within one year	11,086
After one year but not more than five years	11,086
	22,172

The operating leases include agreements for the sublease of properties to a related party for a term of up to 18 months, with a renewal option. Future minimum lease payments to the Group are as follows:

	US$000
First year	868
After one year but no more than five years	192
Total	1,060

c) The Company's subsidiaries, Hydromashservice LLC (Hydro) and FIN LLC (FIN) have entered into a management service agreement. The controlling shareholder of FIN is also employed as the Managing Director of Hydro. The agreement commenced on 1 July 2005 and is for an indefinite period. Either party may terminate the agreement without cause at any time upon providing the other party with advance written notice of a minimum of three months. FIN agreed to advise Hydro on potential investment transactions and provide management and maintenance services. The pricing of the services is going to be according to market prices.

Note 24 Commitments and Contingencies continued

d) A management agreement dated 10 February 2006 was signed between the Company's 90% owned subsidiary, Invetisionno-Ipotechnaya Co (IIK) (a subsidiary of Mall Project Co. Limited) and Norman Project LLC (Norman). Norman agreed to assume the authority of the sole executive body of IIK in consideration of which IIK agreed to pay Norman US$20 thousand, payable in eight installments by 1 October 2007. Norman will continue to perform its functions under the agreement after full payment of the consideration until the completion of the construction project in Saratov. The agreement is for an indefinite period and may be terminated by mutual agreement of both parties. Either party may terminate the agreement at its discretion by providing prior written notice to the other party.

e) A management agreement dated 31 August 2006 was signed between the Company's joint venture investment (a subsidiary of Inverton Enterprises Limited.) (Global 1) and Norman. Under the agreement, Global 1 transferred all powers of its sole executive body to Norman and provided that Norman may exercise control over the operation of Global 1, Norman is entitled to a management fee of US$200 thousand, payable in eight equal monthly installments from 1 September 2006 to 1 April 2007. The agreement ends on 31 August 2009 but may be terminated earlier by mutual agreement.

f) A consultancy service agreement dated 1 August 2005 was signed between Global 1 and Norman (acting as consultant) pursuant to which Norman undertook to provide consulting services to Global 1 in relation to the land plot bordered by M-8 Moscos-Kholmogory shosse, Kalinina Street, Yaroslavl-Ivanovo highway and Kostromskoye Shosse in the Yarolslavl region in consideration of the Ruble equivalent of approximately US$700 thousand. The agreement expires on the performance in full by the parties of their obligations under the agreement.

g) The Company provided a loan to its subsidiary, Mall Project Co. Limited as of 31 December 2005 and 31 December 2006 in the amount US$3,447 thousand and US$3,616 thousand, respectively, for the financing of the acquisition of the property under development in Saratov. According to the shareholders' agreement, the minority shareholders in Mall Project Co. Limited will be entitled to receive rights in its shares subsequent to the repayment of the loan and the accrued interest.

h) A consultancy service agreement dated 16 March 2006 was signed between IIK and NAM (acting as consultant) pursuant to which NAM undertook to provide consulting services to IIK in relation to the land plot located at Zarubina Street, Saratov, in consideration of the Ruble equivalent of approximately US$1,085 thousand excluding VAT. The agreement expires on the performance in full by the parties of their obligations under the agreement.

i) A management agreement dated 7 February 2006 was signed between MAG and the sellers of MAG (the service providers), pursuant to which the service providers undertook in relation to the land in Moscow owned by Hydro and MAG, to facilitate the entry into a new lease in relation to a new land plot, the application of change in the permitted use and obtaining the state registration of MAG's title to the land. In consideration of the services, MAG has paid the service providers approximately US$2.3 million and is obligated to pay approximately US$2.8 million. The service providers have undertaken to repay the initial payment if they fail to meet their obligations under the agreement.

j) As of 31 December, 2006, the Company has outstanding contractual commitments for construction of investment property amounting to the Ruble equivalent of approximately US$6.3 thousand.

k) Taxation Environment Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, income tax, unified social tax, together with others. The government's policy on implementation of these regulations is often inconsistent or non-existent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems. Generally, tax declarations remain open and subject to inspection for a period of three years following the tax year. Management believes that it has adequately provided for tax liabilities; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

Note 25 Financial Instruments

a) Financial Risk Factors
1 Cash Flow Interest Rate Risk The Group has a significant bank deposit for a short-term period (less than a month) interest bearing and has bank borrowings at fixed rates.

2 Credit Risk The Group performs ongoing credit evaluations of its lessees and purchasers and the financial statements include specific allowances for doubtful accounts which, in management's estimate, adequately reflect the underlying loss of debts whose collection is doubtful.

3 Currency Risk Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At the end of the reported period, the Group had significant balances in foreign currencies. The Group is exposed to foreign exchange risks arising from exposure with respect to the Russian Ruble. The Group's policy is not to enter into any currency hedging transactions on a speculative basis.

b) Fair Values The fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

Note 26 Significant Events Subsequent to Balance Sheet Date (Unaudited)

a) As for a change in share capital – see Note 19.

b) On 3 January 2007, the Company completed the first share purchase agreement to acquire the entire issued share capital of Gasconade Holding Ltd., a Cypriot company that holds 58% interest in Real Estate LLC, a Russian company that has the leasehold rights in land to be used for the Company's skyscraper development project in Moscow. The consideration under this agreement is a total of US$13,000 thousand (US$1,600 thousand of which has already been paid by the Company). In addition, the Company has entered into an additional share purchase agreement to acquire an effective further 21% interest in the Russian company referred to above for a consideration of US$4,500 thousand. The Company intends to close this additional agreement and also acquire the remaining 21% interest for a further US$4,500 thousand subject to the satisfaction of certain conditions.

c) On 3 January 2007, the Company announced that, in connection with its initial public offering of ordinary shares (the placing), Merrill Lynch International, as stabilising manager, gave notice that it is exercising the over-allotment option in respect of 3,558,000 ordinary shares in the Company (the over-allotment shares). The over-allotment shares were issued at the offer price of 478p per over-allotment share (the offer price). These shares were issued on 8 January 2007.

Shareholders' Information

Financial Calendar

Annual General Meeting	21 May 2007
Announcement of 2007 first quarter results	May 2007
Announcement of 2007 interim results	August 2007
Announcement of 2007 third quarter results	November 2007

Share Price

Since flotation of the Company on 18 December 2006 and until the year end at 31 December 2006, the range of the closing mid-market prices of the company's ordinary shares were:

Price at 31 December 2006	495p
Lowest price during the year	479.5p
Highest price during the year	495p

Daily information on the company's share price can be obtained on the London Stock exchange website (Company's ticker MLD.L).

Website

www.mirland-development.com

Shareholders' Enquiries

All administrative enquiries relating to shareholdings (for example, notification of change of address, loss of share certificates, dividend payments) should be addressed to the company's registrar at:

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