AM BUILDING CENTER, CJSC

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017

AM BUILDING CENTER, CJSC

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2017

AM BUILDING CENTER, CJSC

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2017

CONTENTS

mgi gregoriou & co ltd
CERTIFIED PUBLIC ACCOUNTANTS (CY), TAX AND BUSINESS ADVISORS

Est. 1973

HEAD OFFICE
GREG TOWER
7 Florinis Street,
P.O.Box 24854
1304 Nicosia - Cyprus
Telephone: (357) 22451555
Facsimile: (357) 22451556
e-mail: nicosia@gregoriou.com
website: www.gregoriou.com

Independent Auditor's Report

To the Members of AM Building Center CJSC

Opinion

We have audited the financial statements of AM Building Center CJSC (the "Company"), which are presented in pages 7 to 19 and comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

Without qualifying our audit opinion we draw attention to the matter described in Note 2 within page 8 of the consolidated financial statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the IASB, and for such internal control as determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Other Offices:

PAPHOS: P.O.Box 60254, 8101 Paphos - Cyprus Tel. (357) 26933957 Fax: (357) 26936667 e-mail: pafos@gregoriou.com
LIMASSOL: P.O.Box 53442, 3302 Limassol - Cyprus Tel. (357) 25338850 Fax: (357) 25338851 e-mail: limassol@gregoriou.com
LARNACA: P.O.Box 40712, 6306 Larnaca - Cyprus Tel. (357) 24620650 Fax: (357) 24658858 e-mail: larnaca@gregoriou.com

Independent Auditor's Report

To the Members of AM Building Center CJSC (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body 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.

Marios Anastasi
Certified Public Accountant and Registered Auditor
for and on behalf of
MGI Gregoriou & Co Ltd
Certified Public Accountants and Registered Auditors

Nicosia, 13 December 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year ended 31 December 2017

	Note	**2017 US$**	2016 US$
Revenue	5	**6,856,871**	4,564,657
Cost of sales	6	**(2,269,678)**	(1,884,582)
Gross profit		**4,587,193**	2,680,075
Administration expenses	7	**(2,172,849)**	(3,031,242)
Operating profit/(loss)		**2,414,344**	(351,167)
Finance income	8	**607,736**	841,585
Finance costs	8	**(2,825,532)**	(2,800,951)
Profit/(loss) before tax		**196,548**	(2,310,533)
Tax charge	9	**(547,520)**	(1,336,423)
Net loss for the year		**(350,972)**	(3,646,956)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(350,972)**	(3,646,956)

The notes on pages 7 to 19 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Note	2017 US$	2016 US$
ASSETS			
Non-current assets			
Property, plant and equipment	10	**25,474,485**	26,079,061
		25,474,485	26,079,061
Current assets			
Trade and other receivables	12	**777,410**	962,334
Loans receivable	11	**7,910,614**	7,302,878
Cash and cash equivalents		**349,199**	1,385,859
		9,037,223	9,651,071
Total assets		**34,511,708**	35,730,132
EQUITY AND LIABILITIES			
Equity			
Share capital		**329**	329
Retained earnings		**(2,233,357)**	(1,504,135)
Total equity		**(2,233,028)**	(1,503,806)
Current liabilities			
Trade and other payables	15	**2,661,943**	1,905,381
Borrowings	13	**34,082,793**	35,328,557
Total liabilities		**36,744,736**	37,233,938
Total equity and liabilities		**34,511,708**	35,730,132

On 13 December 2018 the Board of Directors of AM Building Center, CJSC authorised these financial statements for issue.

«АМ-Билдинг Центр»
«AM-Building Center»
Москва

General director

Chief accountant

The notes on pages 7 to 19 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	Share capital US$	Retained earnings US$	Total US$
Balance at 1 January 2016	329	2,142,821	2,143,150
Comprehensive income			
Net loss for the year	-	(3,646,956)	(3,646,956)
Balance at 31 December 2016	329	(1,504,135)	(1,503,806)
Comprehensive income			
Net loss for the year	-	(350,972)	(350,972)
Transactions with owners			
Dividends	-	(378,250)	(378,250)
Balance at 31 December 2017	329	(2,233,357)	(2,233,028)

The notes on pages 7 to 19 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	2017 US$	2016 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**196,548**	(2,310,533)
Adjustments for:			
Depreciation of property, plant and equipment	10	**604,576**	604,576
Exchange loss /(profit)		**334,293**	(232,183)
Interest income	8	**(607,736)**	(609,402)
Interest expense	8	**2,491,239**	2,800,951
Cash flows from operations before working capital changes		**3,018,920**	253,409
Increase in trade and other receivables		**(184,924)**	(276,155)
Increase in trade and other payables		**810,143**	1,419,833
Cash flows from operations		**3,644,139**	1,397,087
Tax paid	8	**(528,675)**	-
Net cash flows from operating activities		**3,115,464**	1,397,087
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		**(3,773,874)**	(2,323,005)
Dividends paid		**(378,250)**	-
Net cash flows used in financing activities		**(4,152,124)**	(2,323,005)
Net increase in cash and cash equivalents		**(1,036,660)**	(925,918)
Cash and cash equivalents:			
At beginning of the year		**1,385,859**	2,311,777
At end of the year		**349,199**	1,385,859

The notes on pages 7 to 19 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

1. Incorporation and principal activities

Country of incorporation

AM Building Center, CJSC (the 'Company') was incorporated in the Russian Federation on 15 April 2002, as a private company with limited liability under the Civil Code of the Russian Federation.

Principal activities

The principal activity of the Company is the commercialization of the Dom Park Kultury office tower on Zubovsky Boulevard, in central Moscow. In November 2011, the Company had entered into a lease agreement with Transaero Airlines OAO ('Transaero'), under which the Dom Park Kultury office tower was leased in its entirety to Transaero for an initial term of 10 years. The creditors of Transaero filed an application for the bankruptcy of Transaero on 1 October 2015 and the Russian authorities revoked its operational license on 26 October 2015. As a result, the Company's lease agreement with Transaero was terminated and Transaero vacated the office tower during the fourth quarter of 2016.

During the second quarter of 2016, the Company entered into separate lease agreements with a number of tenants including the Autonomous Nonprofit Organisation Local Organising Committee 'Russia-2018', the Moscow Government Institution Department of Physical Culture and the Limited Liability Company "Galaks" under which 4,492 square meters, 1,004 square meters and 352 square meters of the office tower was leased to each of these three lessees respectively. During March 2017, further 298 square meters of space was leased to a new tenant.

2. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Company's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2. Accounting policies (continued)

Going concern basis

The Company reported net loss of $350,972 for the year ended 31 December 2017 and net liabilities of $2,233,028 at 31 December 2017, which are mainly associated with loans of US$34,082,793 payable to UniCredit Bank Austria AG (the 'Bank'). The loan from the Bank became fully repayable on 30 September 2016, under the terms of the initial loan agreement.

The Company and the Bank concluded an Amendment and Restatement Agreement, dated 16 September 2015, which intended to amend and restate the facility agreement that had been in existence until that point. However, the aforementioned Amendment and Restatement Agreement has not been brought into effect by the parties, due to the ongoing bankruptcy proceedings of the material tenant of the Dom Park Kultury office tower, Transaero. Instead, the Company and the Bank entered into an Amendment Agreement on 3 March 2016, by which they agreed to shorten the term of the loan to one year, in order to enable the Company to search for new tenants for the office tower and to fulfill its financial covenants undertakings.

Under the Amendment Agreement of 3 March 2016, the outstanding loan principal of US$35,328,557 was to be fully repaid by a 'bullet' payment on 30 November 2016 whilst interest accruing on the loan balance was to be repaid in installments on 30 March 2016, 30 June 2016, 30 September 2016 and 30 November 2016.

The Company did not repay the loan principal on 30 November 2016. The Company and the Bank have finalized an amendment agreement to the Amendment and Restatement Agreement, dated 16 September 2016, under which:

- The final repayment date of the loan is expected to be extended to 30 April 2018.
- The principal loan amount is expected to be repaid in six equal installments of US$200,000 each and a final bullet payment of the outstanding balance on 30 April 2018.
- The first installment of US$200,000 is expected to be paid within 5 business days after the signing of the amendment agreement, whilst the other five installments of US$200,000 each are expected to be repaid on a quarterly basis.
- The annual interest rate on the outstanding loan principal balance will decrease from 7.2% to 6.7%.

The Company did not repay the loan principal on 30 April 2018 and is currently attempting to renegotiate its loan terms. Management expects that the Company will reach a settlement with the bank. Unless renegotiated, the Company will be required to make a lump sum payment of the principal of the loans with a current balance of US$34,082,793. Furthermore, a number of the Company's contracts with tenants (accounting for 87.29% of its total 2017 revenue) have expired or will expire within the next 1-2 months from the reporting date. The Company is currently actively markets the office tower in search of new tenants. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern depends on the outcome of the abovementioned negotiations with the Bank and also on the ability of the Company to fulfil its obligations towards the Bank, and also on its ability to sign lease contracts with new tenants in order to occupy the office tower.

In addition, the Company's shareholders have indicated their intention to continue providing such financial assistance to the Company and therefore request repayment of the shareholders' loans only when the Company has surplus cash.

Management are of the opinion that the Company will be able to continue as a going concern and thus consider the preparation of the financial statements on the going concern basis as appropriate.

Adoption of new and revised IFRSs

During the current period the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2017. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company.

2. Accounting policies (continued)

Revenue recognition
Revenue comprises the invoiced amount for the sale of goods and services net of Value Added Tax, rebates and discounts. Revenues earned by the Company are recognised on the following bases:

- **Rendering of services**
  Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- **Rental income**
  Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Finance income
Finance income includes interest income which is recognised based on an accrual basis.

Finance costs
Interest expense and other costs on borrowings to finance construction or production of qualifying assets are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Foreign currency translation

(1) **Functional and presentation currency**
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars (US$), which is the Company's functional and presentation currency.

(2) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

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

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

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

Dividends
Dividend distribution to the Company's shareholders is recognised in the Company's financial statements in the year in which they are approved by the Company's shareholders.

2. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line method so as to write off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

	%
Buildings	5
Computers	20
Office equipment	16.67

No depreciation is provided on land.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Prepayments from clients

Payments received in advance on sale contracts for which no revenue has been recognised yet, are recorded as prepayments from clients as at the reporting date and carried under liabilities.

2. Accounting policies (continued)

Financial instruments (continued)

Loans granted

Loans originated by the Company by providing money directly to the borrower are categorised as loans and are carried at amortised cost. The amortised cost is the amount at which the loan granted is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. All loans are recognised when cash is advanced to the borrower.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs (see above).

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Share capital

Ordinary shares are classified as equity.

Non-current liabilities

Non-current liabilities represent amounts that are due more than twelve months from the reporting date.

3. Financial risk management

Financial risk factors
The Company is exposed to credit risk, liquidity risk, currency risk and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

3.1 Credit risk
Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

3.2 Liquidity risk
Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

3.3 Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Rouble. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

3.4 Capital risk management
The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

Fair value estimation

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the reporting date.

4. Critical accounting estimates and judgments

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

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

- **Provision for bad and doubtful debts**

  The Company reviews its trade and other receivables for evidence of their recoverability. Such evidence includes the customer's payment record and the customer's overall financial position. If indications of irrecoverability exist, the recoverable amount is estimated and a respective provision for bad and doubtful debts is made. The amount of the provision is charged through profit or loss. The review of credit risk is continuous and the methodology and assumptions used for estimating the provision are reviewed regularly and adjusted accordingly.

4. Critical accounting estimates and judgments (continued)

- **Income taxes**

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

- **Impairment of non-financial assets**

  The impairment test is performed using the discounted cash flows expected to be generated through the use of non-financial assets, using a discount rate that reflects the current market estimations and the risks associated with the asset. When it is impractical to estimate the recoverable amount of an asset, the Company estimates the recoverable amount of the cash generating unit in which the asset belongs to.

5. Revenue

	2017	2016
	US$	US$
Service and management charges	**472,496**	253,816
Rental income	**6,243,485**	4,286,704
Income from telephone providers	**140,890**	24,137
	6,856,871	4,564,657

6. Cost of sales

	2017	2016
	US$	US$
Gas, water and electricity expenses	**119,159**	74,917
Insurance cost	**39,111**	40,122
Telephone expenses	-	177
Rent	**25,222**	27,156
Maintenance costs	**1,481,610**	1,137,634
Depreciation	**604,576**	604,576
	2,269,678	1,884,582

7. Administration expenses

	2017	2016
	US$	US$
Staff costs	564,299	339,287
Property tax	542,375	355,339
Insurance	266,000	264,776
Payments to related parties	180,000	429,748
Other operating expenses	377,690	1,317,932
Telephone and postage	5,077	2,534
Auditors' remuneration	23,127	24,000
Legal fees	156,861	271,257
Bank costs	57,420	26,369
	2,172,849	3,031,242

8. Finance income/(cost)

	2017	2016
	US$	US$
Interest income	607,736	609,402
Exchange profit	-	232,183
Finance income	607,736	841,585
Exchange losses	(334,293)	-
Interest expense	(2,491,239)	(2,800,951)
Finance costs	(2,825,532)	(2,800,951)
Net finance costs	(2,217,796)	(1,959,366)

9. Tax

	2017	2016
	US$	US$
Corporation tax	234,620	-
Withholding tax	312,900	-
Deferred tax – (credit)/charge (Note 14)	-	(462,106)
Impairment of net deferred tax asset	-	1,798,529
Charge for the year	547,520	1,336,423

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

	2017	2016
	US$	US$
Profit/(loss) before tax	196,548	(2,310,533)
Tax calculated at the applicable tax rates (20%)	39,310	(462,106)
Withholding tax	312,900	-
Deferred tax	-	(462,106)
Other differences	195,310	462,106
Impairment of net deferred tax asset	-	1,798,529
Tax charge	547,520	1,336,423

10. Property, plant and equipment

	Property	Office equipment	Total
	US$	US$	US$
Cost			
Balance at 1 January 2016	29,486,709	10,901	29,497,610
Balance at 31 December 2016	29,486,709	10,901	29,497,610
Balance at 1 January 2017	29,486,709	10,901	29,497,610
Balance at 31 December 2017	29,486,709	10,901	29,497,610
Depreciation			
Balance at 1 January 2016	2,803,072	10,901	2,813,973
Charge for the year	604,576	-	604,576
Balance at 31 December 2016	3,407,648	10,901	3,418,549
Balance at 1 January 2017	3,407,648	10,901	3,418,549
Charge for the period	604,576	-	604,576
Balance at 31 December 2017	4,012,224	10,901	4,023,125
Net book amount			
Balance at 31 December 2017	25,474,485	-	25,474,485
Balance at 31 December 2016	26,079,061	-	26,079,061

The property relates to the Dom Park Kultury office tower on Zubovsky Boulevard, in central Moscow whose construction was completed in October 2016. The Company holds the freehold title to the building and the leasehold to the land plot where the office tower is situated, under a lease agreement which expires in January 2049.

11. Loans receivable

	2017	2016
	US$	US$
Loans to related companies (Note 16)	7,910,614	7,302,878
	7,910,614	7,302,878
Less current portion	(7,910,614)	(7,302,878)
Non-current portion	-	-

The loans are repayable as follows:

	2017	2016
	US$	US$
Within one year	-	-
Between one and five years	7,910,614	7,302,878
	7,910,614	7,302,878

The Company loans receivable are denominated in the following currencies:

	2017	2016
	US$	US$
United States Dollars	7,910,614	7,302,878
	7,910,614	7,302,878

11. Loans receivable (continued)

The effective interest rates on loans receivables were as follows:

	2017	2016
Loans to related companies	**12%**	12%

On 3 May 2012, the Company entered into Loan Agreement Number 1 with its parent undertaking Fairford (Cyprus) Limited, pursuant to which the Company made a loan to its parent in the total amount of US$1,000,000. The funds were advanced by the Company to its parent within the period from 30 May 2012 to 24 July 2016. The loan is denominated in United States Dollars, bears interest of 12% per annum and is repayable upon demand.

On 8 August 2012, the Company entered into Loan Agreement Number 2 with its parent undertaking Fairford (Cyprus) Limited, pursuant to which the Company made a loan to its parent in the total amount of US$3,000,000. The funds were advanced by the Company to its parent within the period from 29 August 2012 to 22 May 2016. The loan is denominated in United States Dollars, bears interest of 12% per annum and is repayable upon demand.

12. Trade and other receivables

	2017 US$	2016 US$
Trade receivables	**549,725**	622,750
Deposits and prepayments	**80,495**	137,495
Other receivables	**147,190**	202,089
	777,410	962,334

13. Borrowings

	2017 US$	2016 US$
Current borrowings		
Bank loans	**34,082,793**	35,328,557

Bank borrowings comprise amounts advanced to the Company by UniCredit Bank Austria AG (the 'Bank'), under the loan facility agreement dated 29 August 2008 which was subsequently amended by a number of additional agreements. The primary purpose of the loan facility was the provision of funding for a number of different aspects of the development of the Dom Park Kultury office tower on Zubovsky Boulevard.

The Company and the Bank concluded an Amendment and Restatement Agreement, dated 16 September 2015, which intended to amend and restate the facility agreement that had been in existence until that point. However, the aforementioned Amendment and Restatement Agreement has not been brought into effect by the parties, due to the ongoing bankruptcy proceedings of the material tenant of the Dom Park Kultury office tower, Transaero.

Instead, the Company and the Bank entered into an Amendment Agreement on 3 March 2017, by which they agreed to shorten the term of the loan to one year, in order to enable the Company to search for new tenants for the office tower and to fulfill its financial covenants undertakings. The key terms of the Amendment Agreement of 3 March 2017 are the following:

- The outstanding loan principal of US$35,328,557 will be fully repaid by a 'bullet' payment on 30 November 2017.
- The outstanding loan principal will bear annual interest rate of 7.2% above LIBOR. Interest will accrue during that period and will be repaid in installments on 30 March 2016, 30 June 2016, 30 September 2016 and 30 November 2016.
- The Company deposited the total of US$1,960,000 in a special Debt Service Reserve Account opened with the Bank, to be held by the Bank as collateral for the payment of interest and any other debt service under the loan agreement.

13. Borrowings (continued)

- The requirement on the Company to comply with a Debt Service Coverage Ratio, as that was set out in the existing facility agreement, was waived. However, the Company is required to ensure that the Loan to Value Ratio (where the Value is measured by the independent appraiser) does not exceed 90%.
- The Company is required to rent the office tower to new tenants at a minimum average rent of US$55 per square meter per month, for both office and retail space, as indexed upward from the beginning of the second year of each lease agreement. Variations from the minimum parameters above require pre-approval from the Bank.
- The Company should ensure that at least 50% of the net leasable area of the office tower has been leased by 31 May 2016, within the minimum average rent parameters stated above.
- Certain conditions precedent should be fulfilled within the agreed deadlines, for the Amendment Agreement of 3 March 2016 to come into force. As of the date of signing these financial statements, these conditions precedent had not yet been fully fulfilled.

The Company and its shareholders had executed inter alia the following security in favour of the Bank, which continues to be valid under the Amendment Agreement:

- A mortgage over the Dom Park Kultury office tower;
- A pledge over the shares in the Company's shareholder Fairford Cyprus Limited;
- A pledge over the Company's shares.

The Company did not repay the outstanding loan principal on 30 November 2016. The Company and the Bank have finalized an amendment agreement to the Amendment and Restatement Agreement dated 16 September 2016, under which:

- The final repayment date of the loan is expected to be extended from the 30 November 2017 to 30 April 2018.
- The principal loan amount is expected to be repaid in six equal installments of US$200,000 each and a final bullet payment of the outstanding balance on 30 April 2018.
- The first installment of US$200,000 is expected to be paid within 5 business days after the signing of the amendment agreement, whilst the other five installments of US$200,000 each are expected to be repaid on a quarterly basis.
- The annual interest rate on the outstanding loan principal balance will decrease from 7.2% to 6.7%.

Starting from the fourth quarter 2016, UniCredit Bank Austria AG has novated all its rights and obligations in relation to its loan facility agreement with the Company to UniCredit S.p.A.. Therefore, as at 31 December 2017, UniCredit S.p.A. is the lender to the Company.

As at 30 April 2018, the Group did not repay the loan principal on 30 April 2018 and is currently attempting to renegotiate its loan terms. Management expects that the Group will reach a settlement with the bank in the near future by which the Bank will extent the repayment a further period.

14. Deferred tax

Deferred tax is calculated in full on all temporary differences under the liability method using the applicable tax rates (Note 9). The applicable corporation tax rate in the case of tax losses is 20%. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The movement on the deferred taxation account is as follows:

Deferred tax liability

	Temporary tax differences US$
Balance at 1 January 2016	**936,046**
Reclassification to deferred tax assets	(936,046)
Charged to the Statement of profit or loss and other comprehensive income (Note 9)	-
Balance at 31 December 2016	**-**
Balance at 1 January 2017	-
Balance at 31 December 2017	**-**

Deferred tax assets

	Tax losses US$
Balance at 1 January 2016	**2,272,469**
Reclassification from deferred tax liabilities	(936,046)
Charged to:	
Statement of profit or loss and other comprehensive income (Note 9)	462,106
Impairment of deferred tax asset	(1,798,529)
Balance at 31 December 2016	**-**
Balance at 1 January 2017	-
Balance at 31 December 2017	**-**

15. Trade and other payables

	2017	2016
	US$	US$
Trade payables	**22,849**	22,849
Tenant's deposit	**1,824,853**	1,334,244
Accruals	**169,144**	316,456
Other creditors	**645,097**	(231,832
	2,661,943	1,905,381

16. Related party transactions

The Company is controlled by Fairford (Cyprus) Limited, incorporated in Cyprus, which owns 100% of the Company's shares.

16. Related party transactions (continued)

The following transactions were carried out with related parties:

16.1 Income and (expenses) from transactions with related parties

	Nature of transactions	2017 US$	2016 US$
Fairford (Cyprus) Limited	Interest income	607,736	609,402
Overtech Services Limited	Management fees	-	(118,406)
Tinor Maxi LLC	Management fees	-	(1,342)
Elran (D.D) Real Estate Limited	Management fees	-	(30,000)
213 Holdings Limited	Management fees	-	(30,000)
Rus Basilica Property & Investments Limited	Management fees	(180,000)	(250,000)
		427,736	179,654

16.2 Loans to related parties (Note 11)

	2017 US$	2016 US$
Fairford (Cyprus) Limited	7,907,952	7,300,216
Engineering Company LLC	2,662	2,662
	7,910,614	7,302,878

17. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2017.

18. Commitments

The Company had no capital or other commitments as at 31 December 2017.

19. Events after the reporting period

As at 30 April 2018, the Group did not repay the loan principal on 30 April 2018 and is currently attempting to renegotiate its loan terms. Management expects that the Group will reach a settlement with the bank in the near future by which the Bank will extent the repayment of the loan for a further period.